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Benefits in Brief

SUMMER 2019

How to Choose High-Quality Service Providers

As an employee benefit plan sponsor, it's up to you to make sure that you hire competent and high-quality service providers.

These include your investment advisor, trustee/custodian, recordkeeper, and plan auditor.

In particular, you have a fiduciary responsibility to hire plan service providers that possess the specialized knowledge and experience required to perform the services you've agreed upon.

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You're also responsible for regularly monitoring plan service providers to make sure they're adequately performing the agreed-upon services.

Guidance from the DOL and AICPA

The Department of Labor (DOL) and the American Institute of Certified Public Accountants (AICPA) have issued specific guidelines to help plan sponsors fulfill their fiduciary duty when hiring service providers.

The guidelines start with preparation of a thorough request for proposal (RFP).

It's critical to ask informed questions in the RFP and provide sufficient information to service providers about the plan and scope so they can submit a meaningful response.

More specifically, the RFP should do the following:

- Communicate all of the facts and conditions related to the engagement.
- Clearly state your objectives and requirements for the engagement.
- Be specific about the information required to evaluate the proposal properly.
- Require that all responses be presented in a common format to make evaluation and comparison easier.

They include guidance for proper RFP evaluation of and eventual selection of service providers.

For example, the evaluation and selection process should be fair and consistent, and the review of providers' qualifications should be thorough, uniform, and well-documented.

The guidelines also suggest setting minimum standards to limit the number of RFPs reviewed only to those submitted by service providers who are legitimate candidates.

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5 Tips to Boost Employee Engagement and Participation

Many successful employee benefit plan sponsors are constantly looking for new ways to improve their plan. One of the best ways to improve a plan is to increase employee engagement, which in turn will help boost plan participation. Here are five tips and best practices:

1. Make participation easy. One of the best ways to do this is to utilize automatic enrollment and automatic escalation features with your plan. With auto enrollment, new employees are enrolled in your plan when they're hired. If they don't want to participate, they have to opt out. The Department of Labor estimates that adopting auto enrollment could reduce the number of eligible employees who don't participate in workplace retirement plans by half.

You can take auto enrollment one step further with auto escalation, which automatically increases plan participants' contribution percentages each year. A recent report found that almost one-third of employees who participated in plans with auto escalation contributed more than 10 percent of their pay to their retirement plan. Conversely, just one-fifth of employees who participated in plans without auto escalation contributed this much.

2. Provide ongoing participant education. The more educated employees are about your plan and their investment options, the more likely they will be to participate and maximize their contributions. There is a wide range of education methods you can choose from (print materials, webcasts, live seminars, a toll-free helpline, and various online resources).

In addition to retirement savings education, also provide information to help them be more well-rounded financial consumers. This might include information to help them with debt management, budgeting, and other household financial tasks.

3. Choose your service providers carefully. Service providers are among your most important partners when it comes to boosting employee engagement and participation in your plan. Look for service providers that offer web-based retirement planning tools that enable employees to plug in retirement saving scenarios to see how they could affect their retirement income. Also, seek providers that offer one-on-one advisory meetings with employees to help them customize their retirement savings plans.

4. Make matching employer contributions. An employer match of employee retirement plan contributions is about the closest thing there is to free money for employees. Unlike just giving employees a profit-sharing bonus, it encourages employees to actively participate in their own retirement planning.

According to the Bureau of Labor Statistics (BLS), 41 percent of employers that match employee 401(k) contributions do so at a rate of between 0 and 6 percent of salary, while 10 percent match at a rate of 6 percent or more of salary. Unfortunately, nearly half (49 percent) of employers don't match employees' 401(k) contributions at all. The average employer 401(k) match is about 3.5 percent of salary.

5. Offer a wide range of investment options. Providing employees with a diverse menu of investment offerings makes it easier for them to customize their plan to meet their individual goals. The average 401(k) plan offers participants 22 investment options, according to BrightScope, a financial information and technology company.

Many plans today offer participants a default investment alternative such as a target date fund. This is a lifecycle investment that automatically adjusts portfolios' asset allocations as employees age to account for their changing risk tolerances. You should review fund performance quarterly and the mix of passive vs. active funds offered annually along with any changes in plan fees compared to similar target date funds.

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The guidelines recommend performing separate evaluations based on technical criteria and price, with the technical component considered first. This can help reduce the temptation to choose the least expensive service provider even if this provider might not be the most qualified.

According to the guidelines, finalists should be invited for an in-person presentation and discussion of their proposal letter so you can ask them questions directly. This meeting will also offer insight into each candidate's understanding of the industry and ability to work well with you and your team.

The selected provider should prepare a scope of work agreement and engagement letter that details in writing what services will be provided. This agreement represents a binding legal contract, so you may want to seek legal counsel before signing it.

More Tips

Here are a few more tips for choosing high-quality employee benefit plan service providers:

Seek out industry experience. There are many details and nuances when it comes to providing services for employee benefit plan sponsors. The more experience providers have in this industry the better.

For example, DOL research indicates that there are more deficiencies in plan audits performed by audit firms that issue fewer than 25 benefit plan audits per year. So be sure to ask candidates how many employee benefit plans they've worked on specifically.

Ask about industry education and expertise. This is especially important when choosing a plan auditor. For example, find out if the auditing firm is a member of the AICPA's Employee Benefit Plan Audit Quality Center (EBPAQC) and if auditors attend industry conferences and continuing professional education (CPE) courses.

Consider the extent of services you want from a provider. For example, do you want a provider that will do everything for you—including calculate employer contributions and monitor employee eligibility and auto-enroll participants? Or are you willing to perform some of these duties? Make sure proposals compare apples to apples for the services you desire.

Obtain SOC1 reports from finalists. Review the reports for an unqualified audit opinion as well as no or few exceptions to the audit procedures. If recordkeeping or custody of assets service providers doesn't have a SOC1 report, this should be a red flag.

Ask for referrals and recommendations. Your recordkeeper, TPA, investment advisor, and other business owners may be able to refer you to service providers they're happy with. These professionals usually have a good idea about which service providers have extensive employee benefit plan expertise and strong reputations.

Meet Your Fiduciary Responsibility

Failure to choose high-quality and competent plan service providers could result in a breach of fiduciary responsibility. So be sure to follow the guidance and suggestions listed here to meet your fiduciary duties.

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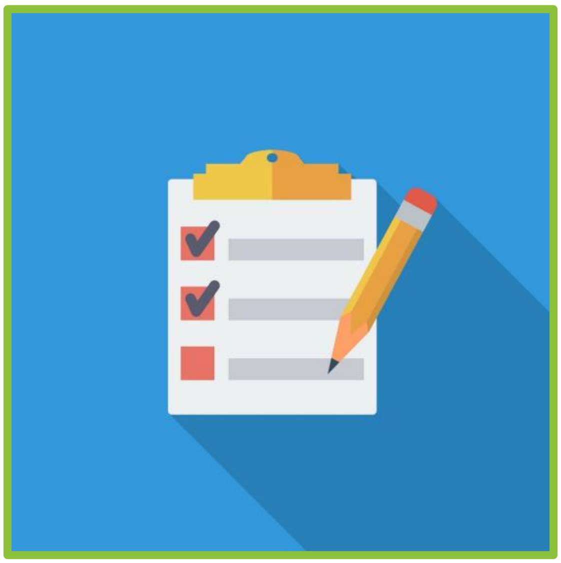
How to Select a Plan Auditor

The AICPA's Employee Benefit Plan Audit Quality Center (EBPAQC) has published a booklet that contains detailed guidance to help sponsors select and work with an auditor throughout the audit process.

Here are five recommendations from the booklet:

1. Make sure the auditor is licensed and independent.

Auditors engaged to perform employee benefit plan audits must be licensed as a public accountant by the state where they are located.



In addition, plan auditors may not have any financial or other conflicts of interest with the plan or sponsor that would impact their ability to render an objective opinion.

2. Check the references of potential auditors.

Ask candidates for references from other plan sponsors they've worked with, and talk to them about the quality of the auditor's work.

Also, check with the state regulatory authority to make sure the auditor holds a valid and current license.

3. Provide documents to the auditor.

As the plan administrator, you must provide various plan records (including financial and accounting records) the auditor will need during the course of the audit.

If a service provider performs recordkeeping services for your plan, you'll need to arrange for the service provider to make these records available to the auditor.

4. Understand the auditor's report.

When the audit is complete, the auditor will issue a report stating an opinion on your plan's financial statements. The report will note any significant deficiencies or material weaknesses in the plan's internal controls and may suggest improving controls and correcting operational defects.

5. Ask questions to guard against audit deficiency.

A main cause of deficiency in employee benefit plan audits is the auditor's failure to perform audit procedures in areas unique to employee benefit plans.

Ask the auditor how he or she addressed such issues as participant eligibility, appropriate reporting of plan assets, proper description of plan obligations, and proper calculation and timely receipt of contributions.

401(k) Matches Now Allowed for Student Loan Repayments

Student loan debt has almost tripled over the past decade, and Americans today owe $1.4 trillion in student loans. Now there's a way for plan sponsors to help employees who are struggling to repay their student loans.

The IRS has issued a private letter ruling that employers can link the amount of matching contributions to employees' 401(k) accounts to the amount of student loan repayments made by employees.

Participating employees can receive non-elective contributions based on loan repayments that are equivalent to what they would have received if they had instead contributed this money to their retirement plan.

This means that employees can receive matching retirement plan contributions by using some of their income to repay student loans instead of contributing this money to their retirement plan.

As a result, these employees can devote more of their income to paying down their student loans, which is likely a higher near-term priority for many young employees than saving for retirement.

Abbott Laboratories recently incorporated this feature into its 401(k) plan. Eligible employees who contribute 2 percent of their salary to student loan repayment via payroll deductions receive an employer match equal to 5 percent of their pay. This is the same match received by employees who contribute at least 2 percent of their salary to their 401(k) plan.

One advantage of this benefit is that, unlike money given to employees directly to repay student loans, matching 401(k) contributions are not taxable. Therefore, employees receive tax benefits similar to those associated with tuition reimbursement plans.

Interestingly, a study conducted by the Center for Retirement Research at Boston College determined that having student loan debt doesn't discourage employees from participating in a 401(k).

However, employees with student loan debt have 50 percent less retirement wealth by age 30 than those with no student loan debt.