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The 401(k) Newsletter

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Courageous Plan Design

If you or your company sponsors a corporate retirement plan that has existed for any length of time, it is highly probable that the financial advisory industry has trained you to fixate on issues that while important, are not the most important to a plan's success. For the better part of the past twenty years, I have watched, and sadly early-on participated in, encouraging plan sponsors to focus on what we call the three F's: funds, fees and fiduciary responsibility.

Without question the "three F's" are important. The Department of Labor and ERISA itself spend a significant amount of resources and time addressing and regulating

how plan sponsors conduct themselves around these three topics. What often gets lost in the process however is the implicit goal of this focus which is ensuring that an environment is created within a retirement plan for the participants to realize retirement-savings success should they choose to participate. So what actions can be taken outside of the three F's to create such an environment? While not a guarantor of plan success, we like to call it courageous plan design.

Much has been written over the past decade about behavioral finance; how investors behave given certain circumstances or market conditions. Let's say for sake of discussion that your company decides that it will match employees' plan contributions up to 3% of their compensation. Often, we see this reflected in a plan document as a dollar for dollar match up to 3%. So what type of behavior does this typically incent?

You guessed correctly if you said that under this arrangement the employees typically defer (save) 3% into the plan to "maximize the match". While there is certainly nothing inherently wrong with this strategy, let's consider that same 3% match structured a bit differently. How might employees 'behave' if the company match was 33% on the dollar up to 3%? In other words, if an employee deferred 3%, they would receive a 1% matching contribution from their employer, 6% would receive 2% and for those employees saving 9% of their pay, they would receive the full 3% match. The plan sponsor is still just committing to match 3% but now the employee must "stretch" for it to maximize the match, hence the industry slang term of a "stretch match".

All of this is fine and good but what about a situation where there is a struggle to even motivate employees to participate in the plan at all? Have you ever considered

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introducing auto features to your plan document?

Instead of employees "opting in" to the plan once they become eligible, they are automatically enrolled upon eligibility unless they "opt out". Under this arrangement, employees can be further "nudged" to save more over time by including an automatic escalation feature whereby their deferral or savings rate is automatically increased periodically at a predetermined rate unless they again, opt out. While

auto features are not appropriate for every plan, they can be a useful tool to overcome inertia and start employees down a path of retirement savings.

Plan sponsors working with a competent advisor and third-party administrator have a large degree of flexibility to create a plan environment that provides a better chance of retirement-savings success than what might otherwise be realized. It will however, require a sponsor to be open to new ideas and potentially

consider "courageous plan design". The three F's are very important for plan success. As we often share with clients and potential clients alike, a plan can offer excellent investment options, very low plan costs and purposeful fiduciary diligence but if we can't convince employees to first enroll in the plan and then save at a meaningful rate, it is highly probable they will not realize a favorable retirement-savings outcome. Perhaps it is time to consider a more "courageous" approach.

What's Happening @ PRP

PRP along with our friends at Empower Retirement and Principal Financial Group spent half a day at the Oregon Humane Society (OHS) wrapping tree trunks with chicken wire to protect the dog walking path from the resident beavers who tend to chew down the trees. Not the typical way we spend our mornings, but well worth it to protect the walking path and structures nearby. Upon receiving our instructions, the task at hand instantly turned competitive and trash talking ensued as we wrapped as many trees as we could as fast as possible. Before we knew it, we used all the wire at OHS!

We also had an opportunity to tour the facilities and view the state-of-the-art surgery center. We learned OHS can accommodate up to one hundred surgeries in a day! As we made our way through the cats and dogs to say hello we were greeted with wagging tails and cold wet noses; I was almost certain one of us was going home with a new friend that day. What a treat to meet these furry friends.

We concluded our day with a bite and a pint and a few laughs amongst friends. Overall, a wonderful experience for a great organization like Oregon Humane Society.

