Under the Hood: Exploring Critical Aspects of Your Retirement Plan

Using Plan Data to Guide Plan Design, Education and Communication Decisions
June 2024
by Jeff Capone, Partner, Senior Consultant

For decades, Plan Sponsors have assessed plan success based on several main statistics, including participation rates, average deferral rates, asset allocation figures and average balances, to name a few. While such factors can be informative to committees and administrators, these somewhat superficial metrics can hide discrepancies across a retirement plan, the different individuals within it and the broad list of varying participant groups. As the focus on improving retirement readiness continues to evolve, it is increasingly important for Plan Sponsors to look deeper into plan data with an eye to the various demographic groups of their participant base. Armed with underlying detail with a look "under the hood" of the plan, sponsors can make more thoughtful decisions when it comes to a variety of plan design, auto-feature and participant communication/education initiatives.

Are the differing segments of your workforce on track for retirement?

It's difficult, if not impossible, for employers to answer this question without access to granular data about participants. Sponsors should consider information by age group, job type, location, or other segments in order to develop a more informed look at how your workforce is doing. It is important that sponsors use more than general plan averages to understand their participant base. Sponsors should lean on their recordkeepers and advisors to gather deeper plan metrics to better understand the progress of various groups within the plan, including consideration of the following questions:

- *Are our younger employers or new enrollees deferring enough to receive the full match?*
- *For our non-participatory plan, are employees contributing enough of their own voluntary money?*
- *Are our 50-somethings properly allocated? Are their projected retirement income levels adequate?*
- *What groups are our biggest loan users?*
  This list goes on...

Data that provides answers to these questions can help sponsors in a variety of ways, ultimately leading to more impactful initiatives. Several years ago, this plan data was not as accessible as it is today, but big data technology has changed recordkeeper capabilities. Plan Sponsors can request more refined reporting to help create more progressive plan designs, introduce effective auto-features and customize more impactful education/communication programs.

Using participant data for more targeted education and communication campaigns

Communication and education initiatives are vital for any plan. Seminars, webinars and other quickly digestible material are likewise critical elements to help participants on the retirement planning path. These efforts can potentially be more successful when they are part of customized campaigns that target specific participant segments. Good plan data and efforts that focus on specific participant populations can make an important difference for participants. In a recent example, a plan was struggling to motivate a certain participant group to contribute sufficiently to meet the match. The client dug into plan data and produced a targeted communication campaign with its advisor and recordkeeper, and just six months later the savings behavior of that participant segment had improved. In another example, a sponsor's engagement survey found that a high percentage of the plan's over 50-year-old workers were reporting that their finances were a top source of stress. This drove the sponsor to devise a broader holistic professional advice campaign, focusing on financial coaching and more one-on-one engagement. In a final example, following an online retirement planning education session, a human resources group received numerous questions asking what the appropriate level of savings for participants should be. The client dug into the demographics of those with questions to learn that many were coming from a department with a high number of under 30-year-old employees. Instead of sending a follow-up email or communication campaign, the sponsor opted for a short-video outreach that focused on the importance of starting deferrals early in one's career. In each of these examples, sponsors (with the help of their advisor and recordkeeper), launched creative, customizable and targeted education/communication campaigns. It can be argued that their potential success was largely driven by leveraging more meaningful plan participant data.

If at first you don't succeed, you may need to try something different

Driving potentially successful outcomes through education and communication can be difficult for some sponsors. As a next step, experts suggest looking more closely into introducing plan design changes or automatic features. These too require an under-the-hood evaluation of how participants are doing and defining the goals to be achieved across certain participant groups.

A few recent trends when it comes to automatic features include:

- **Higher Default Rates for Auto-enrollment:** Industry experts have talked about the benefit of auto-enrollment for years, and many sponsors have moved forward with introducing the practice for their existing or new employees. Recent discussions, however, have focused on auto-enrolling at even higher default rates. More of the discussion today is around moving initial default rates from 3% to figures like 6% or higher. Looking "under the hood" at the new enrollee population following the introduction of an auto-enroll feature may reinforce the decision and encourage future initiatives. In addition, for a new population of enrollees, sponsors can take comfort knowing that once this group starts saving and accumulating more wealth, they often continue this behavior.

- **Higher Ceilings when Auto-escalating:** Sponsors can also consider automated step-ups to help support higher savings rates. In the past, these efforts focused on increasing deferral rates up to, but not further than, the employer match. However, similar to trends in auto-enrollment, some sponsors choose to allow auto-escalation to rise well above the levels required for the maximum employer contributions. Many have shared how difficult it can be to determine the ceiling rate for the diverse subgroups of the plan while considering their unique financial situations. Broader auto-escalation features can help sponsors address this issue for specific participant groups within the plan that are under-contributing, while also expanding the effort to increase contributions for all.

- **Perform Annual Sweeps for Opt-outs or Those not Receiving the Employer Match**: Industry surveys have continually shown that opt-out rates from auto-enrollment and auto-escalate features are relatively low. But sponsors using auto-features in back-to-back years have noted how they pick up non-contributors in subsequent years that they've used the practice. These sponsors have established the exercise more as an ongoing effort, rather than a one-and-done initiative. During those campaigns, employers can also look at plan data for any patterns or concentrations of opt-outs among their participant groups. If those patterns exist, it can be helpful to add in customized communication strategies that encourage individuals to consider enrolling, or Plan Sponsors can use the opportunity to reiterate the benefits of the retirement program, the ways to earn the employer match and the importance of deferring at appropriate levels.

Delayed retirements can be a challenge for Plan Sponsors too!

Recent studies show that more workers will retire later than they had originally planned. While this shift raises worker anxieties in some cases, it can place stresses onto Plan Sponsors as well. Employers have noted that the delayed retirement dynamic could drive up compensation and benefits costs, impact hiring, or be a negative influence on employee morale or even worker productivity. For this reason, it is becoming more and more important for sponsors to consider strategies that nudge their workforce into higher levels of contributions each year.

Reviewing plan details can provide sponsors with guidance:

Assessments of your participant base and how they are doing in the retirement plan can be incredibly informative. Recordkeeper and other reporting mechanisms that look deeper "under the hood" of your retirement plan, showing data respective to individual participant segments rather than the plan as a whole, can help sponsors with more effective plan management. By getting more granular data about plan particulars, sponsors can target areas of concern within their plans, and they can also uncover information they were not originally aware of as well. We believe the use of participant data is key to creating targeted communication and education campaigns that can be more impactful than the traditional one-size-fits-all initiatives. By analyzing

details, Plan Sponsors may be more effective as they weigh plan design initiatives, consider the introduction of automatic features and evaluate other plan initiatives with the goal to improve overall plan outcomes.

For more information on this topic, please contact any of the professionals at Fiducient Advisors.

About the Author

Jeff Capone
Partner, Senior Consultant

As a Partner and Senior Consultant, Jeff services institutional clients by providing advice and counsel on all areas of fiduciary oversight, including investment manager review, portfolio construction, fee benchmarking, and vendor search/selection. Jeff has relationship responsibilities across a variety of defined contribution and endowment clients. He joined Fiduciary Investment Advisors, LLC in 2009, which combined with Fiducient Advisors in 2020.

Prior to joining the firm, he was a Credit Analyst at Hartford Investment Management Company and a Vice President in Bank of America's Global Treasury Management Division. Jeff received his MBA from Dartmouth College and his BA from Bucknell University. He serves as a board member for The Bridge Family Center, a nonprofit agency providing a broad range of services for children and families in the Greater Hartford area. Jeff enjoys skiing, golfing, cycling and spending time with his wife and three children.