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A Measured Plan Has the Upper Hand

Today, plan sponsors are getting savvy about measuring retirement plan performance. But setting the right goals for a plan and measuring against them shouldn't be guess work. Read on to find out what leading indicators, outcomes, and qualitative measures plan sponsors are using to stack their plans up against others.

In today's tight labor market, retirement plan sponsors across industries are battling it out for recruitment value, retention of current employees, and a general sense of goodwill among current retirement plan participants.

So how can plan sponsors know if their plans are headed into this competition with a leg up or in need of improvement?

According to James "Jan" Harper, senior vice president and chief human resources officer at Tidelands Health, it's about setting goals, measuring against those goals, and making that process a habit.

Take Your Plan's Pulse

Measuring a plan will open plan sponsor's eyes to a wealth of data that can be used to assess a plan's health. Metrics like plan utilization, average contribution rate, and diversification of investments within retirement accounts are invaluable inputs for plan providers looking to maximize the value derived from their offerings.

Useful measurements that detail the current state of its plans give Tidelands Health clues on where to focus attention when looking to boost plan performance, according to Harper. Success metrics, such as participation rate, contribution rate, and diversification of account assets are "provided [by our recordkeeper] on a quarterly basis at a minimum," says Harper.

A metric Harper takes very seriously—and perhaps the most popular metric to gauge plan success—is participation rate. A plan's participation rate is a good measure of the percentage of their workforce that is actively saving for retirement.

Plan sponsors can calculate participation rate by dividing the number of employees making payroll deduction contributions to the plan by the number of employees eligible to contribute. For example, if an employer has 1,000 eligible employees and 700 are making contributions to the plan, the plan's participation rate is 70 percent.

Contribution rate can help employers measure plan effectiveness in a different way. By tracking the percentage of income employees dedicate to their retirement plans, plan sponsors can generally measure whether or not their employees are saving enough for their retirement.

Diversification of account assets measures how participant balances are distributed among investment asset classes, such as stocks, bonds, and cash equivalents. This is another important measure because it helps sponsors gauge participants' general level of investment savvy and how likely they are to react to inevitable market swings.

Looking at Success Ratios

While all of these metrics provide a baseline indication of how well a plan is performing, none of them capture the big-picture view most plan sponsors are trying to see: what percentage of plan participants are on track to meet the suggested income replacement ratio in retirement. This is perhaps the single most insightful piece of data available to plan sponsors.

This calculation takes each participant's current balance, age, savings rate, assumed rate of return, and retirement age, and projects an account balance at normal retirement age (commonly 65). More complex calculations add the ability for participants to include other retirement assets and retirement income streams.

The calculation then projects the retirement income stream that the account would generate given a set of assumptions, adds in expected Social Security benefits, and provides the result as a percentage of pre-retirement income replaced in retirement. In many cases, like that of Tidelands Health, retirement income replacement ratio calculations are completed by the plan's recordkeeper.

"Plan sponsors can take this information and compare it with a plan-level goal that represents the income necessary to maintain the same standard of living in retirement as enjoyed while working, typically between 70 percent and 80 percent of an individual's final year's salary," says CAPTRUST Defined Contribution Practice Leader Scott Matheson.

However, Matheson explains that there are a number of challenges in determining the exact percentage of participants who are on track for meeting their retirement income replacement savings goals. "Because replacement income comes from Social Security, the current retirement plan, retirement plans from previous employers, and other savings, plan sponsors cannot capture all potential replacement income for every participant," he says.

If a recordkeeper does not have all the necessary data to complete the calculation, the plan sponsor can provide a file with the census information to the recordkeeper to generate the projections.

"Because of the unpredictability of financial markets, a recordkeeper should run multiple iterations of these projections," says Matheson. "Different investment return scenarios, using tools like Monte Carlo simulations, provide a range of potential outcomes for each participant."

What if plan sponsors aren't happy with what they find? The metrics provide a GPS to direct their attention and budgets.

Plan sponsors concerned about plan participation rate should consider implementing automatic enrollment. If low plan contribution rates are an area of concern, roll out a new automatic annual increase program.

Or get creative like Tidelands Health. According to Harper, as part of Tidelands Health's Wellness Program, participants are required, as a free benefit, to contact an appointed financial counselor and complete a retirement needs assessment on a biannual basis. Harper explains that participants in the health plans who fail to do so will forgo up to $1,000 in credits that would otherwise be available to the participant to pay out-of-pocket healthcare expenses such as deductibles, copays, co-insurance, etc.

A Checkup from the Neck Up

How employees feel about their retirement readiness and the benefits offered to them matters, and knowing what employees want can go a long way toward creating an outstanding compensation and benefits package—a tool that can both attract and retain workers.

A full three-quarters of Americans are only "somewhat confident" or are "not confident at all" that they will be financially prepared for retirement, according to a recent *PLANSPONSOR* article. And, according to U.S. News *& World Report*, few employers evaluate employee satisfaction with their retirement benefits. Only 34 percent of plan sponsors have conducted an employee survey to gauge how satisfied employees are with the education and support they receive about their retirement plan.

So, what can plan sponsors do to better understand how participants feel about their retirement readiness?

Ask them.

Ask them if they are happy with the benefits. Ask them if they are making use of them, or if they need some additional perks to sweeten the deal. Ask them how confident they feel about their financial preparedness for retirement. Ask them what's working and what's not working about the plan offering.

This type of qualitative research approach allows plan sponsors to gain a deeper grasp of the challenges retirees face every day. This data is observed and recorded through the methods of observation, one-to-one interviews, focus groups, and surveys.

A 360-degree survey administered by a third-party vendor can be useful for gauging employee satisfaction with the benefits package and for gathering general feedback. However, it is also possible to use a low-cost survey resource, such as Survey Monkey, to develop a quick and easy retirement confidence survey for employees.

What's important is not how plan sponsors obtain this essential participant data, but that it is collected and interpreted in a way that can help elevate the benefits offering. Of course, if you're going to ask the questions, you should also be prepared to act on at least some of the feedback.

Set Your Target

Metrics gleaned from an employee survey are helpful by themselves. They provide plan sponsors with a baseline against which they can measure progress or identify trends—positive or negative. But what do good or bad metrics look like for a particular employee population, industry, or plan design? What are the right targets to shoot for?

Setting the right goals or benchmarks doesn't have to be guesswork. Once data on the plan's leading indicators, outcomes, and qualitative measures has been gathered, plan sponsors can compare the plan to plans of similar sizes across their industries on a regular basis.

"This is an area where plan sponsors should lean on their recordkeepers or advisors to give them broad-based industry conventions or benchmarks," says Matheson. "You can work with them to find out what your competitors' plans look like based on the metrics that matter to you and the subject matter experts you surround yourself with."

Tidelands Health sets goals based on what they are hearing and seeing from their industry peers, according to Harper. "When I have the ability to sit among my contemporaries in a national audience, and I hear that the organizations I respect say that their participation rates are 90 percent, I set my sights on a 90 percent participation rate for our plans," he says.

Many plans determine metric goals based on information provided through the Plan Sponsor Council of America (PSCA), a nonprofit association that provides services, best practice information, and advocacy to defined contribution plan sponsors. The PSCA's 61st *Annual Survey of Profit Sharing and 401(k) Plans* reports on the 2018 plan-year experience of more than 500 plans.

Another great reference when setting plan goals is asset manager Vanguard's *How America Saves 2019*. Here, you will find data on more than 1,900 defined contribution retirement plans and more than 5 million participants. In this 18th edition of *How America Saves*, Vanguard updates its analysis of defined contribution plans and participant behavior based on 2018 recordkeeping data. Specifically, plan sponsors will find retirement plan benchmarks and data supplements such as average participation rates, median account balances, typical asset allocations, and much more.

These reports serve as valuable reference tools that will prove very useful as plan sponsors look to measure and benchmark their plans.

Some plan sponsors, like Tidelands Health, utilize services offered by a recordkeeper to get an idea of current plan success ratios. Recordkeepers have access to information on how well—or how poorly—participants within other plans are prepared for post-retirement income needs. According to Matheson, obtaining and interpreting this information is critical to setting appropriate success factor goals for your plan.

In addition to setting quantitative goals, plan sponsors are also setting qualitative goals. "A good starting point for setting goals around qualitative targets is the Employee Job Satisfaction and Engagement research report developed by the Society for Human Resource Management (SHRM)," says Matheson. The report covers qualitative benchmarks for stacking up against a retirement plan, such as percentage of employees satisfied with their benefits, how employees rank importance and satisfaction with benefit aspects, what kinds of benefits retain employees, plus loads more research conducted by SHRM.

Measuring Is Not One and Done

Determining the frequency, scope, and specific metrics of these checkups is essential. Gathering plan metrics on a regular basis provides plan sponsors with a way to see how their retirement plans stack up against others within their industry so they can focus their attention on plan design tweaks, promotion opportunities, or employee groups who are failing to take advantage of this important benefit.

Getting started is what's important. Plan sponsors should understand that their methods and measuring criteria can—and should—evolve over time as plans and goals change. For plan sponsors just beginning this journey, focusing on baseline metrics like participation rate, contribution rate, and diversification of account assets provides a solid step in the right direction. Over time, they may want to consider exploring different areas of measurement to identify new opportunities for improvement or uncover positive and negative trends.Having an effective retirement savings program can come with real rewards for institutions that are able to stay on the right side of metrics that support their goals. While each case is different, there is no doubt that measuring gives plan sponsors key information in making their retirement benefits as competitive as possible.

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