

# THE ASPPA Journal

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## Getting Plan Sponsors to Zero: A Business Owner's View of 401(k) Operations

by Rich Budke

I owned a business for 25 years. We made saw blades. Today, I own a financial services firm serving privately held businesses, and our goal is to improve and simplify areas that burden business owners. A key focus for us is providing advisory services to 401(k) plans with a stated goal, to all involved, of helping achieve 90% participation, 80% of all employees on track to have enough money at retirement, and helping plan sponsors move administration time and cost as close to zero as possible. 90-80-0.

**M**ost 401(k) sponsors are aware they are not administering their plans correctly. They are aware they have some personal liability as trustees, but are typically not aware of the exact nature or extent of it. They wish more of their employees were participating but don't know how to improve participation. They sense, with concern, that few of their people are putting enough money away for their retirement years.

Many of these plan sponsors need help that they are not currently getting. If asked, they aren't sure what they need and aren't sure what type of help to request. Checklists of things they are supposed to do are not helpful or of interest to them. They simply want someone to take care of their plans and their employees' retirement savings strategies so that they can focus on running their businesses.

The purpose of this article is to pinpoint some trouble spots I see as a 401(k) advisor and how the industry—myself, my fellow advisors and the product vendors—can help minimize the burden for employers while improving the plan for employees. For many business owners, the 401(k) plan is something they want to offer to their employees but it is not integral to their business



success or personal retirement success. It is a cost center, not a profit center, and a source of distraction as often as not.

I believe in saving and always encouraged my employees to take advantage of the plan when I had my former business, but as a rule the employees got little help. As an employer, no one ever told me about my fiduciary responsibilities, the nuances of plan administration, and how I alone was responsible for administering the plan in accordance with the document—or many other things that would have scared or annoyed me had I known about them.

As 401(k) advisors, I believe it is our duty to have the following perspective: first, how can we make the participants successful? Second, how can we make it easy for the sponsor? Finally, how can we protect the sponsor?

### Problem Areas

Plan sponsors struggle most in the following areas:

- The new hire and enrollment process;
- Payroll, including census;
- Administering automatic escalators of savings; and
- Getting maximum participation and sufficiently high deferrals.

My firm has been strongly committed to plan designs that include automatic enrollment and automatic escalators of savings since before the Pension Protection Act of 2006, and as a result, virtually all of our plans include those features. Since adopting these simple solutions, plan participation is averaging more than 85%. Our goal is 90% participation in all plans we advise.

### The New Hire Process

Hiring new employees is a lot of work for a company and 401(k) compliance complicates it further. The typical employer wants to hand the new employee a stack of forms to complete and be done with it. In reality it's not so simple.

Administering a new hire process in a qualified plan involves a number of steps—from determining eligibility, entry dates, distributing notices, distributing and explaining enrollment materials, payroll details, entering 401(k) vendor input and double-checking to make sure no one is overlooked. Getting it right is generally only possible if someone is actively involved in the details on a regular basis, such as by checking data from both payroll and the TPA, assembling new hire packets or handling stragglers. The reason plan sponsors struggle in this area is precisely because of the need for active involvement in the details, which is what sponsors hope to avoid. They want someone else to handle details for them.

Perhaps the most important step is ensuring the new employee makes good choices about participation, savings rate and investments. The industry has historically viewed this purely as a function of free

will, but this approach is arguably too complacent; a more productive view is that the plan can and should be structured in such a way that the right employee behaviors become the most likely choice. Good choices become even more likely when participants see a professional advisor as part of the process. When you combine an “autopilot” plan design with personal access to an advisor for every participant, you get the best outcomes.

There are two key burdens in the new hire process:

- The need for a process supervisor who is involved in the details (a job the sponsor does not want and the typical provider will not or cannot accept); and
- The need for a high level of involvement by a professional advisor at the right times and places.

In other words, the new hire process is labor-intensive, and our industry doesn't do labor-intensive. We do automated, streamlined and computerized—not labor-intensive. Supplying the labor is the cure. Getting plan sponsors to zero with respect to new hires therefore involves the following solutions:

- Supply the labor: involve yourself in the details of coordinating between TPA, vendor, payroll, sponsor and participant.
- Supply the participant service: show up on a pre-determined schedule that is sufficient to get the job done.
- Structure the plan for success: embrace the “autopilot” approach wherever it fits, which is most companies.

### Payroll

#### Example 1: Conversion

Administering payroll in conjunction with a 401(k) can have many pitfalls. Someone in the process, probably the advisor, needs to help the plan sponsor address issues such as, “How do I ensure I report the right compensation amount? What's included and what's not? Should I report all new hires to you or just new participants? What are the consequences of getting things wrong? How do I administer auto-enrollment? How do I implement the annual auto-escalators of savings?” In my firm's experience, the TPA or advisor rarely volunteers proactively that these things are important and holds a class on how to handle them. Instead, the client must know what to ask, and naturally no client ever does. Many problems could probably be avoided with a better conversion process.



### Example 2: Bonuses Not Included

A car dealer has a plan in which compensation for its salespeople does not include bonuses for purposes of determining the company match, which is the only form of employer contribution. Unfortunately, this definition of compensation is not what the plan document says, but is nonetheless the way the sponsor has administered its plan for years. When the issue is discovered on audit, the short version of what the client hears from its advisor and TPA is: “It’s your fault. It’s not our fault. It’s your responsibility to report compensation correctly. It’s your responsibility to administer the plan according to the document.” The sponsor writes a big check for a formal correction, despite the fact that the document was not worded the way the sponsor had requested it from the recordkeeper. The sponsor is told by his or her attorney that the only way to get the recordkeeper to pay for the error is to sue them. You can imagine how the typical business owner might react to this—regardless of who was technically at fault, the instinctive response is, “Isn’t this what I hired you to take care of?”

### Example 3: Census

Clients often dislike completing the annual census. But in today’s 401(k), the census should be updated with every single payroll in order for the administration to flow as smoothly as possible. Regular updates depend on technology—if the vendor makes it easy it can get done, otherwise not. In the ideal 401(k) of the future, updates of the census will be automatic with every payroll; in the meantime, plan sponsors would benefit by searching out payroll processors who offer this service.

If we look across the three payroll examples above, we see again the same pattern that occurs with the new hire process: the solution, to a large extent, is labor and attention to detail, which is exactly what sponsors want to avoid.

Getting a client to zero when it comes to payroll, therefore, involves these factors:

- **Competence:** The advisor must understand the nuances of payroll and its importance in compliant administration. The advisor needs special expertise.
- **Labor:** Someone needs to do the work. Getting payroll right crosses company lines, so to speak—it involves TPA, recordkeeper, payroll provider and sponsor. Since no single provider will do the overall coordination, that coordination is left to the sponsor. This is the labor that an advisor or TPA can supply, at least in part.
- **Process:** Having a sound process that one executes consistently for every client, such as payroll training for new clients and contacts, or a protocol whereby clients understand the full census must be updated every pay period.

### Implementing Auto-enrollment and Auto-escalators of Savings

The auto-401(k) concept has it right: do the right things for participants automatically unless they opt out. Success rates soar with this approach, and I question any fiduciary’s decision not to implement these provisions with few exceptions. But administering an auto-k is more difficult, not easier, and sponsors struggle to get it right. The more difficult areas include:

- Ensuring you don’t miss anyone (*i.e.*, if you have an employee whom you fail to auto-enroll, the penalty can be substantial);
- Tracking deferral rates and changes in deferral rates so you know what changes to make when the time comes;
- Tracking the auto-escalation percentage and any elected changes to the percentage;
- Getting the changes entered on time and without error in the payroll system; and
- Making sure the appropriate notices have been given.

Most payroll providers now have features that automate the auto-escalation of savings if you simply know to ask the right questions. Most recordkeepers assist with the new notice requirements. But because the penalties for error can be significant, this area is one where sponsors can use help. Our experience has been that even the big payroll providers have kinks in their systems, and it takes careful intervention from the advisor to ensure the sponsor knows what to do and how to integrate with the payroll process.

Again, therefore, the pattern repeats itself: clients need someone to do specific work which requires special expertise. They don’t want to and are not capable of doing the work themselves, so they turn to the plan providers. But since most providers stick to their corner of the puzzle, the effort succeeds or fails based on the business model of the advisor.

*As 401(k) advisors, I believe it is our duty to have the following perspective: first, how can we make the participants successful? Second, how can we make it easy for the sponsor? Finally, how can we protect the sponsor?*



*Knowing that business owners are not interested in becoming 401(k) experts, that they prefer and are smart to hire experts to do it for them, there is a great business opportunity for providers and advisors who are willing to help their clients “get to zero.”*

## Getting to Zero

In each of the problem areas named above—new hire process, payroll and auto-enroll/escalators—we see these common themes:

These functions are a burden for the following reasons:

- Doing it right requires expertise.
- Doing it right requires effort and attention to detail.
- Doing it right requires someone to coordinate between the various providers and other parties.

The solutions can be simply described as a combination of:

- Expertise;
- Effort. Supply the labor; and
- Plan and process design: details of auto-k, service routine, etc.

Since clients can't and won't supply the expertise, labor or attention to detail that is necessary, one of the providers must. In reality, if it's going to be anyone it's going to be the advisor.

By any measure, the service model implied here is high touch. My firm's approach to supplying both the expertise and the labor is to find great, like-minded vendors who can join us to make a good team, share the expertise and labor through active coordination, and pull as much of that burden off the sponsor as humanly possible.

So in a typical plan, we might join with our partners to follow these steps:

- Plan design—strong counseling effort to lead the client to the right configuration of auto-401(k), eligibility and entry.
- Service intervals—generally quarterly or semi-annually with separate processes for new clients (full enrollment) vs. new participants.
- Participant one-on-one—most of our clients pay for this service and we've found it very effective.
- Payroll protocols—written guidelines for training new payroll contacts, the conversion process, census update with every payroll and details of implementation with various payroll providers.
- Protocols for implementing auto-enroll and auto-escalators, including getting specific census data and double-checking to ensure no one is missed.

In a perfect world, my firm or one of our partners would do all of these things, and more. The outcome would be predictable: smoother new hire processes with fewer errors; better choices by participants; more compliant administration of anything associated with payroll and compensation; and a plan sponsor who is as close to zero effort as we can get him.

“Getting to zero” involves a committed advisor who provides all of the following:

- Expertise—on the details of coordination and implementation at the sponsor and participant level.
- Effort—to show up in accordance with a service schedule, determined based on the plan's and sponsor's schedules.
- Coordination—between service providers, such as between TPA, sponsor and payroll providers.
- Process—written guidelines for helping clients with common trouble areas, such as payroll.

## The Business Opportunity

When I ran my prior business for 25 years, I never had a 401(k) program that did what I wanted it to. (This fact is clearer in hindsight than it was at the time.) Knowing that business owners are not interested in becoming 401(k) experts, that they prefer and are smart to hire experts to do it for them, there is a great business opportunity for providers and advisors who are willing to help their clients “get to zero.” The number of areas where clients need help is vast, but focussing on the key problem areas outlined in this article can improve a client's plan operation by leaps and bounds, freeing energy to focus on what matters most—improving participant success rates.

The typical advisor does not follow the sort of service routine outlined in this article, defaulting instead to the typical annual educational meeting. Replace that largely ineffective model with a model whereby an advisor with strong expertise offers the right labor at the right place and time, and these common burdens of plan sponsors can nearly disappear—they can approach zero. ↗



*Rich Budke is a founder of Bellevue Financial in Bellevue, WA, which offers financial advice, planning and products for area employers and individuals. A longtime business owner in industries as diverse as manufacturing, leasing, franchising and commercial real estate, his business acumen has grown numerous companies into businesses that are successful not only on the “bottom line,” but in terms of employee pride and satisfaction. Outside of work, Rich serves on the board of the Footsteps Missions of San Francisco, CA and on the Advisory Board of the PLU School of Business. He and wife Becky are proud parents of five adult children and four adopted orphaned Ethiopian grandchildren. They enjoy spending time together skiing, traveling and dining. ([richb@bellevuefinancial.com](mailto:richb@bellevuefinancial.com))*