



SWOT Analysis for the Retirement Industry

A WBC session featuring three thought leaders takes a freewheeling look at the state of the industry today.

BY JOHN ORTMAN

One of the highlights of this year's

Western Benefits Conference, held June 19-22, 2015 in San Francisco, was a general session featuring a panel of industry leaders who shared their thoughts on changes in the retirement plan industry and the strengths, weaknesses, opportunities and threats currently facing retirement professionals — an old-fashioned SWOT analysis.

The panelists were:

- Robert M. Kaplan, CPC, QPA, CFP, APA, Vice President, National Training Consultant at Voya Financial;
- Adam C. Pozek, ERPA, QPA, QPFC, Partner, DWC ERISA Consultants, LLC; and
- Sheldon H. Smith, Esq., APM, Of Counsel, Bryan Cave LLP.

Highlights of the wide-ranging session included discussions about the impact of health care reform, state auto-IRA programs and tax reform, as well as a look at what's happening in the recordkeeping and TPA sectors.

IMPACT OF HEALTH CARE REFORM

POZEK: Without debating the pros or cons of the Affordable Care Act, I certainly haven't spoken to any business owners who have said that their health care premiums have gone down since that has come to pass. Certainly, with escalating costs and businesses trying to do more with less, something's got to give.

In talking to participants, my experience is that more of them appreciate the immediacy of medical benefits than the esoteric question, "What's life going to be like and how much money am I going to have in 30 years when I retire?" So in terms of a benefit that's going to resonate with employees, health care, at least in my

OPPORTUNITY KNOCKS



Adam Pozek

“In the TPA marketplace, I think, there's a great opportunity to provide added service, to provide that proactivity, to go to our clients and be true consultative partners and not just a service provider or a vendor.”

experience, seems to be the one that wins the day.

What does this mean in terms of encouraging clients to make matching contributions or adding automatic enrollment, which are going to mean higher costs? It's certainly very easy to focus on our retirement niche, but it's also important to step back and recognize that there are competing interests within the benefits realm.

It's a great opportunity, if you're a retirement specialist, to form partnerships with those who might be health and welfare specialists. I think it certainly creates an opportunity for more collaboration with our colleagues in ways that can bring greater service to our clients — and certainly, opportunities to win additional business for ourselves.

I think there are tremendous opportunities there, as long as we recognize the reality that our clients are operating in right now and try to be part of the solution to that.

KAPLAN: It certainly is a challenge. One of the things I'm seeing with a lot of the advisors we work with is that they are building their businesses and not just talking about qualified retirement plans. But there's actually a third leg of that stool when it comes to employees' expenses, which is that there are a lot of people who have to factor in college savings at the same time. To have an advisor who's working with two or three parts of that, I think, is very important because they will try

to keep people focused on health care and education for the kids — but not forget about how important saving for retirement is.

SMITH: In working with large clients' HR departments, what I have learned is that their focus primarily is on setting a certain percentage of the expense which, as a corporate matter, they are allotted for employee benefits.

Generally, when we look at wages as part of the benefit, we add to that the taxes that are attributable to that, OASDI and health insurance. I'm talking about the employer share. Then we add whatever the retirement plan cost is, and now adding the Affordable Care Act cost. Most employers in this country have pretty much decided that they want to be somewhere around 32% to 38% of their overall labor costs.

I find that to be an exceedingly grave threat to the retirement plan industry because if health care premiums continue to increase, but the employers are bound and determined to retain that smaller percentage or that exact percentage for the cost of labor, then they will begin to cut the cost of their retirement contributions. The first thing that will go down in order to make up for an increase in health care premiums will be the employer match.

They also tell me that the number one concern from their employees is health care. It's not retirement. That's

the same thing, obviously, that we've heard forever and ever. Unfortunately, people don't even think about retirement until they're quite a bit older. For that reason, I think there is a huge threat to the retirement plan industry, depending upon how the economics of health care work out.

As Adam and Bob indicated, there's also a great opportunity here. Employers recognize that from a standpoint of understanding all of this, they need our help. As they have in the past when it comes to retirement plans, they would love to have single-source assistance from people who are knowledgeable about their employee benefit package.

Now that the package has taken

and 401(k) elective deferrals in a single arrangement, and start to move employers in a way that makes more sense to them. There's a great opportunity, but from talking to my clients I also perceive a great risk.

STATE-RUN PRIVATE SECTOR PLANS

KAPLAN: It seems like quite a few of the bills that have been introduced in the current Congress that have to do with retirement plans seem to be about expanding coverage. Also, one that we're waiting for from Senator Hatch will include additional simplification, with new types of safe harbor plans and a SIMPLE-type plan. Anything that drives more coverage is really good news.

savings, they're going to want to continue that. When you have employers that offer any type of plan, at some point, they're going to grow into what I will call a "real" plan, not the state IRA-type plan.

POZEK: I think it could be a natural reaction to look at somebody's situation and just see the threat. I'm sure we've all competed for a client where the firm that ultimately won said, "We're going to make it easy. All you have to do is push a button. If you come to us, it's going to be that simple." But we all know it's never that simple.

Certainly, I think there is the concern that the more of these smaller plan options become available

through states, that's going to put increased competitive pressures on us in terms of a downward compression on pricing.

I do think that there are several opportunities. Bob alluded to one: If it expands coverage and gets people used to the idea of saving

— both employers and employees — that's a good thing. Hopefully those companies are going to be successful. They're going to grow. And they're going to get to a point where maybe they need something that's a little more sophisticated than the simplified option that they started with.

I think another opportunity that it creates is in terms of innovation. Certainly, the marketplace has evolved quite a bit in the last 10 to 20 years. If you look at other industries, many use technology to make their customers' lives easier. I think that in many ways the retirement space is probably a little bit behind in those areas.

So this is a great opportunity for

ADVOCACY



Sheldon Smith

We all have to be vigilant in making sure that when we have an opportunity to talk to our own elected representatives, we make it clear to them that they're looking at it all wrong. This is not an expenditure; it's a deferral."

on a different structure because of the Affordable Care Act, they would really like for us to be educated both with respect to the retirement plan side and the health and welfare side, so that they can make one phone call and not a myriad of calls in order to get their questions answered about things that might be contradictory or even in conflict with one another. I think that's a great opportunity for us.

If we've only been retirement plan professionals in the past, then by learning about health care reform, about what a cafeteria plan is, we might be able to move people into a structure that allows for pre-tax opportunities that would cover both health and welfare structures

At the state level, like in Illinois, for example, they're talking about an employer mandate — if you have more than 25 employees and you don't offer a private sector plan, you have to at least offer a retirement savings vehicle. I see that as a great opportunity for us as an industry to be able to talk to plan sponsors about perhaps having a different type of plan, where it may be better for their long-term employees or management or perhaps putting in a cash balance plan or a safe harbor.

At the same time, even if it's plans where we're not thinking of ourselves immediately as being a consultant of sophisticated plans, when you have people starting off on retirement

us to say, “If small businesses are being attracted to some of these simplified solutions because they’re made easy, how can we use technology? How can we use different resources that are available to us to create a simple yet robust solution that we can be a part of?”

There’s a lot of really smart people in this room. Maybe this is the competitive pressure, if you will, that could spur the next innovation in terms of moving our industry forward. I think there are a lot of opportunities here.

RAMIFICATIONS OF TAX REFORM

KAPLAN: With any tax reform change that is enacted, oftentimes what legislators want to do is maybe keep this tax rate stable or lower the tax rates, but expand the base of taxable income.

As long as we have a private sector where there will still be tax advantages to have in a plan, those advantages will be less and less outside of a plan. A lot of the employers plus the employees will have the one tax deferred vehicle or Roth vehicle available to them within a plan. That, I think, is a good opportunity for us.

SMITH: There’s also a significant threat there. There are many senators and many representatives — probably a majority in the House, and maybe close to a majority in the Senate — who want to go back to the ’80s, and reduce the limitations. They want to reduce the 415(c) limit again. They want to reduce the deduction limitations.

Unfortunately, from the standpoint of the budgeting process in Congress, they’re still looking at the cost, if you will, of this “tax freebie,” which is how they look at it. They consider it to be a tax expenditure. Generally speaking, they refuse in the budgeting process to look at the fact that these are deferrals and



Bob Kaplan

We see most of the innovation in our industry coming at the behest of large plans that want unique designs or unique technology. Once companies like ours develop that, you can just bring that downstream to medium and small plans.”

not expenditures like a charitable contribution deduction or a principal interest on your residence deduction. Instead, they look at the retirement plan deduction as a cost to the government.

Obviously, if they reduce it significantly and you’re working with small plans, what you’re going to hear from the business owner is, “If I can use a 15, 18 or 20% capital gains rate, why shouldn’t I just go invest outside the plan? I don’t need to have a plan. If my employees have any brains, they’ll go invest. They don’t make nearly as much money. Maybe they’ll get the 10% capital gains rate, depending upon how tax reform comes out. Therefore, I don’t need a plan to get a tax advantage. Why should I worry about paying 39% 20 years from now?”

We’ll see how that all evolves. But I think small plans, particularly, will be at the greatest risk.

Maybe there’s an opportunity in the way that we can advocate over the next few years because so many Baby Boomers are going to retire and so much money will come into the federal fisc as a result of these deferred dollars now being taxed. But that’s a difficult sell and probably presents more of a threat, more of a risk, more of a weakness, if you will, than an opportunity.

We all have to be vigilant in making sure that when we have an opportunity to talk to our own elected representatives, we make it clear to them that they’re looking at it all wrong. This is not an

expenditure; it’s a deferral. If you have an opportunity to talk to your representative, I would encourage you to try and pound that home, because otherwise — especially with tax reform — this is potentially a great risk to retirement savings in this country.

RECORD KEEPERS’ FUTURE

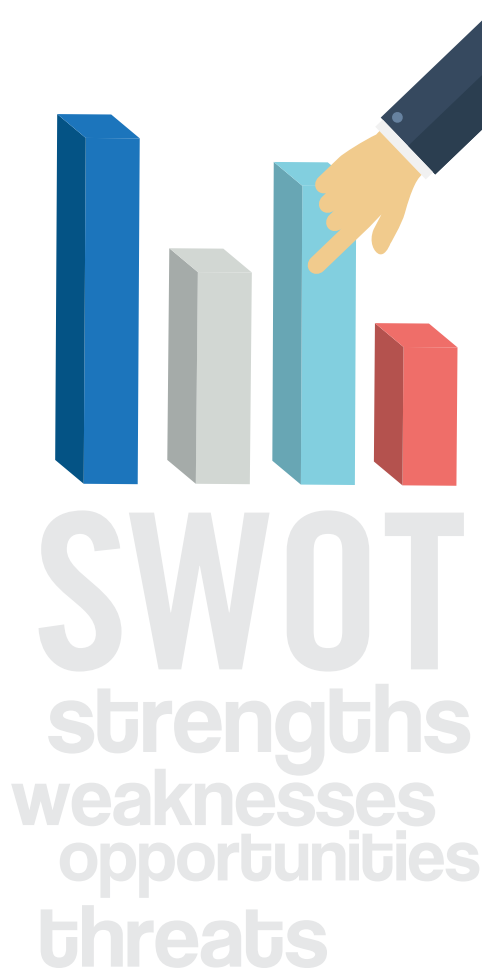
KAPLAN: In the record keeping world, with consolidation, a lot of the companies who are purchasing or merging will now have access to large plans, medium sized plans, and small plans as well. I think from the record keeper’s point of view, that is very helpful. I see a lot of promise in the future for that.

We see most of the innovation in our industry coming at the behest of large plans that want unique designs or unique technology. Once companies like ours develop that, you can just bring that downstream to medium and small plans. I think that a lot of that consolidation and a lot of the future will be bright because of that.

TPAs: CREATING VALUE

POZEK: I think that in the TPA marketplace, there are some of the same consolidation pressures that Bob referred to. Certainly, there are firms that are acquired as owners decide to retire. That can certainly create pricing pressures, which are always a challenge.

One of the opportunities that I see, certainly with regard to the clients and the other colleagues with



creating greater value for the business owners as well as the participants.

RETIREMENT INDUSTRY BRAIN DRAIN

POZEK: I think when you mention retirements and things of that nature, there's certainly a concern about the loss of institutional knowledge. As folks decide to move on to greener pastures, one of the concerns that I see is that there would be a gap where that institutional knowledge could be forgotten.

I know that certainly when we're out looking to bring on new folks into our company, we don't get a lot of resumes or a lot of interest from younger people seeking to get into this business. So I think one of the risks and opportunities that we have as professionals is marketing or reshaping what we do as an industry to make it more attractive to folks who want to join.

As much as I love technology, I think that it has also created a situation where folks can very easily rely on the computer to do it. There's no longer a situation where you're sitting down and doing all of this fun stuff that we used to do by hand and really understanding how it works. Now, I just feed the data into a computer and push a button, and the test comes out and tells me if it passes or fails. A lot of times, for some of the plans that we work on, that might be good enough. But for those who would truly become professionals and consultants and find a home in this business, it's not enough.

I think there are certainly opportunities for those of us who work with younger employees. We have a great opportunity to modify our training that acknowledges the fact that folks aren't going to be doing this stuff by hand and helping them understand not only just the basic mechanics, but the context that it fits into, how it all works and why it matters.

KAPLAN: I look at it in another way. What we see in very large

companies, like the one that I work for, is that when those people retire, there's room for the middle managers to move up. There's movement on that ladder, which can be a good thing.

There's no replacement for experience. We understand that. If you look back on what we were working on 20 years ago or 25 years ago, safe harbor plans didn't exist, or automatic enrollment plans. Obviously, there's a shift going on now with technology and a focus on the participant. A lot of people who are fairly young have grown up, particularly in the DC world, with what we're seeing right now, taking shape as the future of the industry. I think there's great opportunity there as well.

What you're looking for is somebody who's got the drive and ambition and wants to learn. Because we have an awful lot of people who just want somebody to pass this information on or help them grow in their careers.

SMITH: From the legal profession standpoint, it's become very difficult to get young lawyers to want to practice ERISA. One of the things that I've learned primarily from my students is that it would be okay if they had to be tax attorneys and it would be okay if they had to be labor attorneys, but we're asking them to be both tax attorneys and labor attorneys in order to be highly successful ERISA attorneys. Many people just don't want to march up that learning curve.

I also think there are great risks in terms of the loss of this knowledge that's been built up over many years. The opportunity is there for those young people who want to participate and learn, but the risk is there to the industry, generally. **PC**

whom I work, is the opportunity to provide great service. Certainly, if we go back to the 2008-2009 time frame, low price was the driver. Everybody was concerned about shaving as much out of their budget as they absolutely, positively, could.

What I'm starting to see now is the pendulum swinging back. Not necessarily that people want to spend more than they need to, but more of a focus on service; more of a recognition that, "Hey, this is difficult stuff. I've got a business to run. I don't want to be worried about figuring out who my HCEs are. I want someone who's going to be proactive and come to me with things that I might want to consider rather than waiting for me to sit back."

In the TPA marketplace, I think, there's a great opportunity to provide added service, to provide that proactivity, to go to our clients and be true consultative partners and not just a service provider or a vendor. I think that has added advantages both from our standpoint as a TPA, but also from our client standpoint in terms of