

## PLAN WELLNESS CHECKS

**THINK FURTHER** FOR RETIREMENT



A healthy plan drives the level of savings that aligns with the employees' needs and the business objectives. To make certain plan performance today is driving the savings rates needed to reach those future objectives, plan sponsors should perform periodic plan wellness checks.

### HELPING **PLAN SPONSORS** THINK FURTHER FOR THEIR RETIREMENT PLAN



This article provides an overview of plan performance metrics that a plan sponsor may want to track to monitor plan health. Periodic plan wellness checkups will help Plan Sponsors **Think Further** about how well their plan is serving the needs of both the business and plan participants and make adjustments to improve performance when needed.

## 1 WHAT IS A “HEALTHY” RETIREMENT PLAN?

/ A healthy plan means different things to different plan sponsors.

### **Employee Retirement Goals**

- Increase likelihood employees will be able to retire at a reasonable age
- Provide tax benefits for savings

### **Business Objectives**

- Provide competitive benefits that will help attract new employees
- Ensure employees are able to retire at a reasonable age to create opportunities for advancement for emerging talent
- Reward loyal, long-term employees

Plan objectives may change over time as the business grows and evolves or employee demographics change.

## 2 WHAT ROLE DO FINANCIAL ADVISORS PLAY IN PLAN HEALTH?

- **Help plan sponsors identify and prioritize their objectives**
- **Assist in determining the most meaningful plan performance metrics**
- **Help gather data and analyze key plan metrics**
- **Suggest measures that would improve the metrics**
  - Alternative plan design features
  - Participant communications and education
  - Additional services

## 3 WHAT ARE THE MOST MEANINGFUL PLAN PERFORMANCE METRICS?

**There are a variety of plan metrics that a plan sponsor may want to measure. Following is a list of some of the most common plan performance factors.**

The relative importance of the metrics will vary depending upon the plan sponsor's objectives for the plan.

### ■ PLAN SPONSOR METRICS

- Plan fees as a percentage of plan assets
- Percentage of participants invested in the plan's default investment
- Percentage of eligible employees participating
- Average deferral percentage
- Percentage of auto-enrolled participants saving at default rate
- Percentage of participants deferring the amount needed to receive maximum employer matching contribution
- Average plan balance
- Percentage of participants with an outstanding loan
- Percentage of participants with defaulted loans (annual)
- Percentage of participants who took a hardship distribution

Once the metrics are selected, a plan sponsor may want to look deeper than simply plan-wide averages to gain a more accurate assessment of plan health.

- Age
- Wage level
- Tenure
- Geographic location

A few participants with large balances  
can camouflage low overall savings rates.

## 4 WHY IS BENCHMARKING SO IMPORTANT?

**It can be hard for a plan sponsor to gauge the health of their plan without comparing it to other plans.**

While national averages are somewhat helpful, benchmarking a plan's metrics against plans of a similar size or industry or geographical area may provide more meaningful information.

- Most plan sponsors rely on their financial advisor to provide this critical information.
- Most advisors have access through their broker-dealer or firm, or through recordkeepers, to in-depth benchmarking data and research data that will help a plan sponsor evaluate how their plan is doing.

## 5 WHY ARE PLAN FEES INCLUDED AS A PLAN PERFORMANCE METRIC?

**Plan fiduciaries, typically the plan sponsors, have an obligation to make certain that fees paid from plan assets are for services that are necessary and the fees are “reasonable.”**

In recent years, there have been a growing number of participant class action lawsuits alleging that plan fiduciaries breached their fiduciary duties by paying excessive fees for investments or administrative services.

- Investments with high fees when lower cost alternatives were available
- Not monitoring the impact of revenue sharing

Most plan sponsors rely on their financial advisors to help them analyze whether fees are reasonable, including analyzing revenue sharing arrangements and their impact on plan fees.

## 6 HOW OFTEN SHOULD A PLAN EVALUATE PERFORMANCE?

**Evaluating plan health is an ongoing process.**

Many plans benefit from an annual review of key metrics. If plan performance is not trending in a positive direction given the business objectives for the plan and employees' needs, financial advisors can introduce strategies such as plan design or employee education targeted to improve specific performance metrics.



**To obtain more information about the plan performance metrics that drive plan health or to access a plan wellness benchmarking tool that can be used with plan fiduciaries, reach out to your Alger contact, email us at [retirement@alger.com](mailto:retirement@alger.com) or visit us at [www.alger.com](http://www.alger.com).**

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