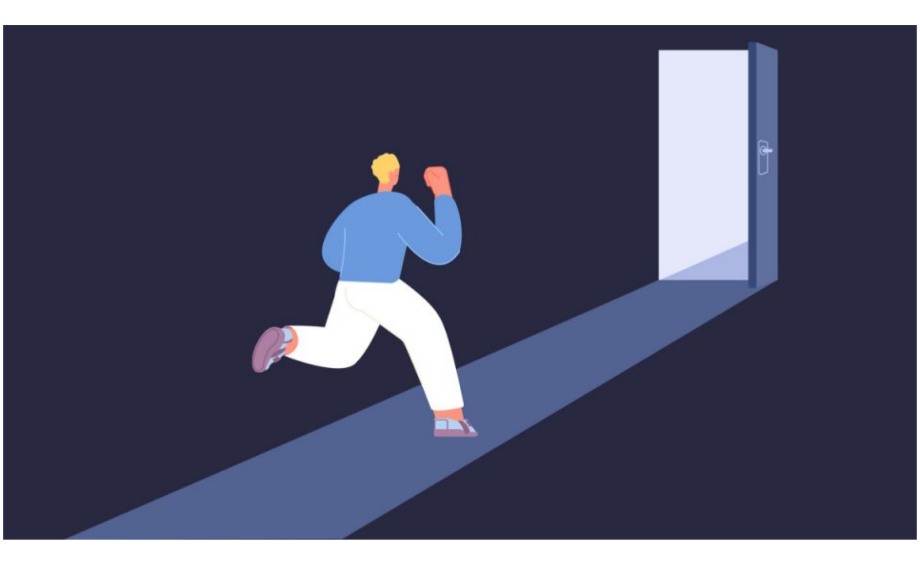
ADMINISTRATION | July 8, 2022

How the Great Resignation Is Impacting Plan Sponsors

Higher-than-usual turnover is affecting investment committees, benefits teams and service providers.

Reported by BETH BRAVERMAN



WHETHER YOU CALL IT THE GREAT RESIGNATION or the Great Reshuffle, employees from entry-level associates to C-suite executives are making career moves, motivated by pandemic-prompted introspection, rising wages and more leverage to negotiate for perks like telecommuting or flexible scheduling.

Even amid ongoing economic uncertainty, 4.4 million people quit their job in April, according to the Bureau of Labor Statistics, slightly below the record 4.5 million who jumped ship from their employer in March.

Barb Delaney, a principal at StoneStreet Renaissance, a HUB International company, says that nearly every client she works with has experienced higher-than-usual turnover on their investment committee and their benefits team.

At the trade group Pharmaceutical Research and Manufacturers of America, or PhRMA, Robin Palchus, the organization's chief human resource officer, says the higher turnover rate has been more of a reshuffling.

PhRMA has had several executives retire over the past year, and Palchus will join their ranks in a few months.

"In part, the last two years have contributed to my desire to retire," Palchus says. "HR leaders and departments, in particular, bore the brunt of all the Covid-related needs and considerations, including returning to the office decision-making. And we are still dealing with it."

That said, the upcoming departure of Palchus and several of her colleagues has had little impact on PhRMA's retirement plan. That hasn't been the case for all employers. For some plan sponsors, the high quit rates of the past few years—both internally and at the recordkeepers and advisers with whom they work—have created a number of challenges.

Increased Errors

One such challenge is the increase in the potential for errors, since new people may be handling an account just as transactions increase due to employees joining or leaving the plan in greater numbers.

"The people who are still there that haven't moved on to a different company are stretched so thin," says Audrey Wheat, manager, vendor analysis at CAPTRUST. "There is more opportunity for error because they have taken on more responsibility."

Delaney also notes the potential for increased errors. "If you don't teach your new payroll person about the plan rules and they enroll new people late, then the plan sponsor has to pay the penalty," says Delaney.

Conducting regular training for all employees in the payroll, finance and human resources team can help prevent such mistakes, Delaney says, adding that her team conducts such training annually for its clients. Training everyone who touches the 401(k) in the plan rules can prevent the costs of correcting mistakes later.

More Frequent Education

Turnover in the benefits department or on plan investment committees may require even more frequent education in today's market, Wheat says.

"There have been a lot of advisers we have worked with on RFP projects, where the adviser will mention 'Hey, my entire committee just turned over, so I need to explain the process all over again because when we talked to them last year it was a completely different committee.'"

The Great Resignation also poses challenges for plan sponsors who may be dealing with understaffed recordkeepers or advisers, Wheat says, adding that some recordkeepers offered buyouts to their senior staff at the height of the pandemic and the 2020 recession.

"They gave the next generation promotions to step up and lead their premier relationships," she says. "And then on top of that, you've since had the Great Resignation, so you shifted less experienced employees up with internal promotions, but you're having trouble backfilling their positions."

'A Perfect Storm'

For plan sponsors, that may mean dealing with contacts who have less experience and who do not have the same internal support that their predecessors may have had.

"It's been a perfect storm of shaking up relationships," Wheat says. "The plan sponsors we have been talking to have definitely been feeling that."

Delaney says she has heard similar stories from clients. "The recordkeepers have one person trained to be a 5500 expert and another person to do testing and another one for basic administration and payroll questions," she explains. "But you don't have anyone holistically who understands the plan design. So when one person leaves, it can be frustrating for the client to not be able to find someone who can answer a specific document or discrimination question."

Such service issues have affected plan sponsors of all sizes. "We have always seen more service issues with plans on the smaller end of the market, because you're working with less experienced people," Wheat says.

However, service issues are now creeping into the large and mega plan space, she adds. She now fields occasional service complaints for plans with $1 billion or more in assets, which almost never happened prior to the pandemic.

One solution for plan sponsors experiencing service issues is to speak up. If your primary contact at a recordkeeper has departed, plan sponsors should keep in mind that they do not have to stick with the first new rep assigned to their account, says John Stanton, vice president of retirement services operations with Houston-based Insperity.

"Talk to that person first," he says. "If you think you need someone with more experience and more knowledge, ask for that."

Plan participants may also be experiencing the impact of the Great Resignation, Wheat says. "The best example there is on call center wait times," she explains. "We have heard stories of over an hour on hold to take a loan or a simple distribution. Turnover was always high at the call centers, and now the Great Resignation has just really compounded that."

Opportunities for Re-Evaluation

The Great Resignation has also created an opportunity for plan sponsors to take a closer look at their plan design to see whether it may need tweaking amid a larger number of participant separations.

"Plan sponsors can look at their distribution options for when they have employees leaving," she explains. "It they only offer full distributions, this might be time to take a look at adding partial distributions, so you don't have huge balances rolling out. You may want to incentivize people to keep their money in the plan."

As employees remain open to other job opportunities, plan sponsors can also use their benefits as a differentiator as they compete to attract and retain talent. A Willis Towers Watson survey in April found that six in 10 employees cited their employers' retirement benefits as an important reason they remain with their current employer, compared to just 41% of employees who said that in 2010.

"In many cases, once we explain the value of our benefits, including our competitive 401(k) plan, oftentimes that is received with an incredibly positive reaction from incoming new employees," says PhRMA's Palchus. "It might even make up the gap for more money."

Tags employer-sponsored benefits, Great Resignation, investment committees

Reported by Beth Braverman

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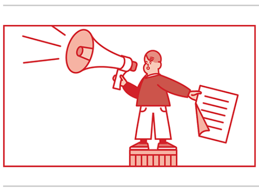
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Hopes Are High for Lame-Duck Passage of SECURE 2.0

One retirement industry policy expert says the conversations she is having on Capitol Hill make her optimistic that the ambitious retirement reform package could pass after the November elections.

Reported by JOHN MANGANARO

Last week, Melissa Kahn, the managing director of retirement policy at State Street Global Advisors, sat down with PLANSPONSOR for a discussion about her recent work in the nation's capital.

Kahn said she agrees with other Washington watchers who say the passage of a new round of federal retirement planning reforms looks likely. Hurdles remain, she warned, such as the upcoming November elections and a general lack of floor time in the Senate. However, Kahn said she is firmly in the optimistic camp when it comes to the passage of a key legislative package often referred to as "SECURE 2.0," in reference to 2019's Setting Every Community Up for Retirement Enhancement Act, aka the SECURE Act.

As Kahn explained, retirement industry practitioners view the SECURE Act as the most important legislative update to the U.S. defined contribution retirement planning system in a generation. Now, the odds are strong that the package of additional reforms referred to as SECURE 2.0 could become law as soon as the end of this year.

As recounted in the Q&A below, Kahn feels retirement policies will remain one of the few areas of nearly complete bipartisan consensus in a political era defined by disagreements and divisions. As such, she said, it is important for the retirement industry to take advantage of this rare opportunity for rapid, meaningful legislative progress.

PLANSPONSOR: Can you please reflect on the current legislative and political environment, and especially on the recent advancement of key pieces of retirement legislation in the Senate?

Kahn: Simply put, 2022 has seen a real flurry of legislative activity impacting the retirement planning industry. For the most part, everything we have seen has been very positive on the legislative front, with the House and Senate leadership coming into alignment around SECURE 2.0.

Based on what I hear in private and what is unfolding in the public eye, it seems that the SECURE 2.0 package is marching forward in a positive way. The House is done with their part, having passed the whole package already, and the two key Senate committees are making real progress. We applaud them for working together on such an important issue for the American people.

I think the momentum we are seeing ties back to the true bipartisan nature of retirement policies. This has always been an area where both parties could come together. Retirement is a real issue for all of their constituents, and frankly, I think a lot of the members also see retirement as a personal issue. They will all have to retire at some point themselves, and that makes the issue very real. They know a lot of people, their constituents, are going to live as many as 30 or even 40 years in retirement, and they understand that this is a daunting prospect.

PLANSPONSOR: What do you see as the most important part or provisions in SECURE 2.0?

Kahn: It's really about the comprehensive nature of the package—there is not really any single blockbuster provision that will change the game by itself. Rather, like SECURE 1.0, the new package tackles many different areas in different ways. It will help to improve account portability, it will expand plan access, it will address the need for efficient emergency savings and it will help ease the burden of delivering retirement income. All of these different areas are addressed.

Some of the provisions that I think stand out the most include the proposal to allow 403(b) plans to invest in collective investment trust vehicles. Historically, these plans have been restricted to only using mutual funds and annuity contracts. On the other hand, 401(k) plans can already invest in CITs and other types of investment vehicles that may be more cost effective. Another helpful provision in the 403(b) space is the ability for 403(b) plans to begin to join open multiple employer plans—again, just like 401(k) sponsors can already do.

There are helpful provisions speaking to expanding automatic enrollment that could prove to be very powerful if adopted. Other popular features are a higher catch-up contribution limit and the lifting of a cap on the use of qualified longevity annuity contracts.

PLANSPONSOR: Can you describe what your conversations with lawmakers on Capitol Hill are like? Do they expect to see this package become law?

Kahn: Absolutely. The first thing to say is that educating the lawmakers is a critical part of getting this legislation passed. On that front, the meetings are going really well, and we think we will get over any remaining hurdles. We think the various bills in the House and Senate will be reconciled successfully.

I've been in meetings with many staffers at this point. Their almost unanimous view is that this is going to happen at the end of the year. What is happening now that the two key Senate committees have passed their bills is that the staff is having their pre-conference conversations about how they are going to align the bills.

It's possible a full Senate vote could happen pre-election, but I think that is very unlikely. My view is that SECURE 2.0 will likely be included as part of a larger bill in the lame duck session, not dissimilar to SECURE 1.0.

Tags 401k, 403b, Defined Contribution, Retirement Income, Retirement New Legislation

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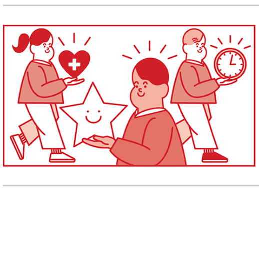
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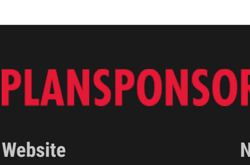
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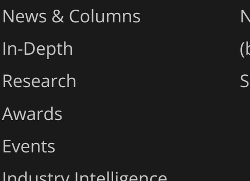
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