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The Plan Sponsor Time Crunch

With so many recent disruptions to what was 'business as usual,' how can plan sponsors ensure their retirement plan gets the attention it needs and the most important obligations get met?

Approximately half of plan sponsors said they spend less time than they would like on their retirement plans, according to a poll by Mercer.

Preston Traverse, a partner and mid-market solutions leader in Mercer's Wealth business in Boston, says passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act—and the associated responsibilities for plan sponsors–and human resources (HR) transitions due to the COVID-19 pandemic have only exacerbated the problem.

Additionally, "plan sponsors had a lot of questions about the CARES [Coronavirus Aid, Relief and Economic Security] Act and furloughing employees. The topic of outsourcing fiduciary responsibilities has come up more," he says.

Traverse explains that there are three types of fiduciaries a sponsor can outsource functions to. A 3(16) plan administrator takes on day-to-day operations. "Some providers take on full administration, including approvals of distribution requests, distributing annual notices, performing nondiscrimination testing and filing Form 5500s," he says. However, not all providers take on all tasks, so plan sponsors should be clear about what duties they want to outsource.

The second group of fiduciaries take on responsibilities for plan investments. These 3(21) investment advisers help mitigate fiduciary risk by providing oversight and ongoing monitoring of investments, Traverse says. However, a 3(21) fiduciary lacks the discretion to make decisions about investment selection or changes. A 3(38) investment manager, on the other hand, can decide what investments the plan should offer or drop. "A 3(38) is an outsourced chief investment officer [CIO] arrangement," Traverse says.

Of possible interest to smaller plans especially, pooled employer plans (PEPs) will be available starting next year, and pooled plan providers (PPPs) will be full fiduciary delegates, he notes.

> "Some plan sponsors feel like they're at a crossroads when they consider an outsourced solution. But once they make the change, they'll have a long-term solution to have more resources and not have to commit as many internal resources for their retirement plan," says Mike Cagnina, SEI. "They'll have more efficiency and potentially save some money."

According to Mike Cagnina, vice president and managing director of the institutional group at SEI in Oaks, Pennsylvania, some plan sponsors feel like they're at a crossroads when they consider an outsourced solution. It sounds like a big change, and they'll need more time than they have to evaluate providers. "But once they make the change, they'll have a long-term solution to have more resources and not have to commit as many internal resources for their retirement plan," he says. "They'll have more efficiency and potentially save some money."

Making the Most of Current Resources

Plan sponsors in a time crunch could also look to their current providers—their recordkeepers or consultants—to see what they could take on. "If a plan sponsor came to us saying it didn't have the time to focus on its retirement plan like it wants to, we would gather some basic information about its plan and its providers and give it a best practices checklist for governance, investment strategy, participant education and compliance," Cagnina says. "We would identify what it shouldn't do itself, what it should give to fund managers or consultants. Some clients don't realize what their providers can take on; they don't realize providers' capabilities."

Internally, if a plan sponsor has a second type of plan besides its defined contribution (DC) plan, it could see what current resources could be shared between the two. "Really, it's a case-by-case situation internally. People are wearing a lot of hats these days, and I don't see that changing anytime soon," Cagnina says. "In very large organizations, there are communications and technology to streamline things more. But, in other cases, I've seen financial people doing HR [human resources] work and vice versa; it just really depends on who is available."

Obligations That Should Be Top of Mind

So, with plan sponsors feeling a time crunch, what are the top priorities for their retirement plan? "Something they need to focus on, whether there's a pandemic or not, is annual disclosures," Traverse says. "Confirm and document when those go out."

Plan sponsors also need to make certain the Form 5500 and audit get completed and signed by the deadline: October 15 for calendar year plans that requested an extension from the July 31 due date. If a sponsor has no 3(16) plan administrator, many recordkeepers help with that, Traverse says.

The greatest risk of errors comes when someone falls behind on payroll—depositing contributions and loan repayments as they arrive—or when someone neglects to ensure contributions get allocated as the plan document requires. "A mistake there can compound, and it can be an expensive and time-consuming endeavor to correct," Traverse says, stressing that HR should confirm the plan operates according to the plan document.

"Especially as we go through these times of volatility, plan sponsors need to make sure all policies and governance procedures are updated and in place," says Cagnina. "Participants may panic and question what investments are offered in the plan. Policies should support current governance practices. Documents should spell out who has responsibility for what."

With the market volatility, someone should have access to real-time information about the investments on a plan's investment menu—whether that's an adviser or outsourced fiduciary, he adds. "Probably during this time it's not good enough to wait until the end of each quarter to look at investments."

"I really think that, with the stresses of this year, HR is running very lean, and plan sponsors should be looking at different types of delegations," Traverse says. "I think it puts their plan in the hands of professional management, and many times companies can do this at a reasonable cost.

"At a minimum, plan sponsors should have an adviser to help with a compliance checklist, fiduciary checklist and investment policy statement," he says. ●