Put Your Retirement Plan on the Smartpath™

Best Practices for Banks to Drive Successful Retirement Outcomes

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With the 401(k) plan becoming the sole retirement plan for many employees, it is more important than ever to ensure that these programs are designed to help participants meet their retirement income goals. Today, plan success is measured in terms of how well your plan is able to help participants meet their retirement goals for financial security. Ensuring successful participant outcomes begins with progressive plan design that maximizes positive participant behaviors.

Plan features — automatic features — that better meet the needs of plan participants and plan sponsors can drive successful outcomes for participants and sponsors alike. Participants benefit as they experience higher levels of retirement success and retirement readiness. Plan sponsors benefit as participants become more engaged with their plan.

The Pentegra SmartPath™ is a series of progressive plan design metrics that can help banks ensure successful retirement outcomes for their employees.

1. Make It Easy to Participate.

Why: Strong participation rates start with eligibility features that make it easy for participants to take advantage of your plan — from day one. That means allowing for immediate eligibility. Get employees enrolled in the plan right away and give them an "ownership" stake in their investments.

2. Keep Your Vesting Schedule Short.

Why: While immediate vesting schedules are ideal, a two- to three-year vesting schedule ensures you're not spending company dollars on "short-timers," while still providing an incentive for employees to stay with your company.

3. Use Online Enrollment.

Why: Online enrollment offers plan sponsors and participants a more efficient interface operationally while also offering administrative ease. Additionally, it can be used as a mechanism that will make participants more likely to use online financial planning and guidance tools to map out a strategy from day one.

4. Implement Auto-Enrollment.

Why: In conjunction with online enrollment, implement automatic enrollment. Automatic enrollment basically provides that eligible participants will be automatically enrolled in their company's 401(k) plan unless they take action to opt out or choose an alternate contribution percentage. Auto-enrollment has been shown to get at least 90 percent of workers into a retirement savings plan.

5. Use a 6 percent Deferral Rate Rather than 3 Percent.

Why: Typical automatic enrollment sets participants' initial contributions at a minimum of 3 percent of their pay, increasing their contributions by 1 percent a year (up to 6 percent). While the 3 percent deferral rate is good, a 6 percent deferral rate is better and goes a long way toward increasing savings rates overall — in particular if your matching contribution is tied to a higher deferral rate.

6. Add an Auto-Escalation Feature.

Why: Auto-escalation of at least 1 percent per year, but preferably 2 percent, is ideal. We recommend that participants start with a deferral of 6 percent of salary and plan to increase this deferral by another 1 percent each subsequent year, with a cap of 10 percent if your plan has a Qualified Automatic Contribution Arrangement (QACA), but no cap if there is no QACA.

7. Get Creative with Your Matching Contribution.

Why: One of the most attractive features of a 401(k) plan is an employer matching contribution. Consider using employer matching contributions as a way to incent participation, and structure your

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matching formula to do so. Employees often contribute an amount that maximizes their matching contributions. Increasing the match cap will often result in higher deferral rates and, ultimately, better retirement readiness.

8. Adopt a Safe Harbor Matching Formula.

Why: Safe Harbor formulas provide alternative, simplified methods of meeting the non-discrimination requirements by offering certain minimum employer contribution formulas for 401(k) plans. Adopting a safe harbor 401(k) plan design allows an employer to avoid discrimination testing of employee elective deferrals and/or employer matching contributions (ADP/ACP testing).

9. Add a Roth 401(k) Feature (with an In-Plan Roth Conversion feature).

Why: A Roth 401(k) option combines the features of a traditional 401(k) with a Roth IRA, providing employees with a source of tax-free retirement income. Roth 401(k) contributions and investment earnings are tax-free upon withdrawal as long as the employee has maintained the Roth 401(k) account for at least five years and has attained age 59 ½.

10. Limit Plan Leakage.

Why: Early distributions from retirement plans for uses other than as retirement income are more commonly known as plan "leakage." Using a plan's withdrawal feature creates leakage. Loans can also create leakage. It is best to limit the number of total loans outstanding at any given time — ideally to one or two at most. Doing so limits 401(k) asset outflows due to the perpetual use of plan assets to meet day-to-day spending needs.

11. When it Comes to Plan Investments, Less Is More.

Why: The majority of 401(k) plans contain far more equity options than are required to create a diversified equity portfolio. The result? Choice overload, which can leave participants overwhelmed to the point where they simply default to the most conservative investment options or, even worse, avoid joining the plan.

12. Make your Plan's Qualified Default Investment Alternative (QDIA) a "One Fund" Investment Solution.

Why: Your plan's QDIA should be a single fund investment solution that is well diversified among the various asset classes. A typical 401(k) plan has at least one single source investment solution because they are relatively easy for participants to understand. Single source solutions offer participants a way to keep their investment strategies simple but sophisticated.

13. Re-Enroll Periodically.

Why: Quite simply, there is nothing more effective when it comes to influencing participant behavior than on-site education. Re-enrollment of existing plan participants helps participants take a fresh look at how they are investing their contributions since many participants are managing what is most likely their first or second largest asset under the "set it and forget it" mantra.

14. Outsource 3(16) Administrative Responsibilities.

Why: Outsourcing 3(16) administrative responsibilities offers a simple solution that minimizes risk and reduces plan administrative burdens — including responsibility for monitoring the plan features that we encourage you to implement.

Learn more about FBA Endorsed Partner Pentegra's SmartPathTM by contacting Wade Connor at wade.connor@pentegra.com or 704-608-4563. For information about all of FBA's Endorsed Partners, contact Managing Director Jim Seay at jseay@floridabankers.com or 850-701-3510.