

PLAN SUCCESS –HOW TO MEASURE IT & HOW NOT TO

In the quest for a really good 401(k) plan, the focus is often one-dimensional but in reality many dimensions apply. The narrow focus may reflect certain aspects of a plan but falls far short of what should be considered an overall success. Serious deficiencies may be overlooked unless a comprehensive assessment is made.

The one-dimensional approach also fails to account for the different interests of three classes of stakeholders - participant, plan sponsor and the various service providers. Each class of stakeholder has different goals and so the progress to those goals must be assessed differently. A plan may be successful for the participant because of high matching contributions but not so for a plan sponsor who pays the cost!

Plan Participant

As anyone who has attended an enrollment meeting will attest, participants seek maximum disposable income, maximum retirement benefits and want to avoid unnecessary risks. The disposable income is lowered by participant contributions. Retirement benefits are enhanced by matching contributions, high investment returns and low expenses. Risks take the form of investment risk as well as the risk of needing the funds before they are available or running out of funds during retirement.

For the participant, the successful plan is one where matching is high, investments produce exceptional returns, there is little risk of loss, expenses are low and funds are available should needs arise. These goals reflect a short term perspective but may not be in the long term best interest.

Plan Sponsors

The typical plan sponsor seeks two goals - the plan is valued by employees and it is hassle-free.

The value placed by employees is determined by the participant goals described above but these features must be presented effectively for the value to be recognized. This requires compelling communication about the plan features. The number of employees who receive the plan benefits is a critical determinant of the aggregate value of the plan.

For a plan to be hassle-free, there must be minimal employee complaints and little need for help. Hassles also come from compliance and regulation where plan sponsors desire the minimum involvement.

Service Providers

The rational service provider seeks profitable growth. The profits are achieved through revenue that produces acceptable margins. Sustained growth is derived from consistently meeting plan sponsors' goals.

Acceptable margins are produced when the provider's costs to service each plan is fully recovered by the revenue earned. Loss leaders erode margins.

Meeting plan sponsor goals also includes those goals that are valuable to participants.

Measuring Success

Recognizing these different stakeholders requires three different sets of measures with varying levels of importance placed on the metrics used. Success for one stakeholder may have the opposite effect for another. It becomes essential to be specific about which stakeholder class is being referenced.

The following measures are categorized for each of the stakeholder classes and whether the effect is positive (+), negative (-) or neutral (~) on the success of that class. While each measure will not apply in every case, its importance must be considered in the light of the specific circumstances.

Measure	Effect on:		
	Plan Participant	Plan Sponsor	Service Providers
Plan Profile			
Assets in plan	+	~	+
Allocation of assets to capital appreciation	+	-	+
Allocation of assets to capital preservation	-	+	-
Participation Rate	~	+	-
Contribution Rate	-	~	+
Plan Expenses	-	-	+
Plan Features			
Automatic Enrollment	+	+	+
Matching Contribution	+	-	+
Number of Investment Alternatives	-	+	-
Default Investment (QDIA)	+	+	+
Loans	+	+	-
Hardship Withdrawal	+	+	-
Roth	+	+	~
Catch-up Contributions	+	+	+
In-Service Distributions	+	~	+
Safe Harbor (eliminates ADP & ACP testing)	+	+	+

Measure	Effect on:		
	Plan Participant	Plan Sponsor	Service Providers
Self-Directed Brokerage	+	+	-
Quality of Plan Services			
Plan Administration or TPA Services	+	+	+
Recordkeeping	+	+	+
Platform of Available Investments	~	+	+
Trustee/Custodian	~	+	+
Plan Investment Selection and Monitoring	+	+	+
Participant Advice by Computer Model	+	+	+
Face to Face Participant Advice	+	+	-
Pre-retirement Counseling	+	+	-
Effectiveness of Communications			
Enrollment Kit	+	+	+
Participant Statement	+	+	-
Enrollment Meetings	+	+	-
Education Program	+	+	-
Phone Center	+	+	+
Plan Sponsor Website	~	+	+
Participant Website	+	+	+
Plan Sponsor Interface			
Client Relationship Management	~	+	+
Ease of Doing Business	+	+	+
Technological Compatibility	+	+	+
Other			
Plan features/benefits not covered elsewhere	?	?	?
Other concerns or issues not covered elsewhere	?	?	?