

## Guest Article

### Does Your Organization's Retirement Plan Measure Up?

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One of the most challenging tasks for a company, although rarely an urgent one, is evaluating their retirement plan. Where do you start? What are the criteria? If the plan is only so-so, what is the real impact to the bottom line? The impact may be hard to quantify, but it is there. Some plan sponsors feel that as long as they avoid fiduciary liability, they are doing OK, when in fact they may be incurring a significant opportunity cost.

Some mid and large market organizations make an attempt to evaluate and measure their plan...but most benchmarking is related to relative comparison of investment performance or cost analysis. Very few organizations - even the large ones - apply any consistent, logical standard of overall measurement to their pension or 401k plans.

Is it just not important? Given that companies spend millions of dollars and countless hours of their own payroll time related to their retirement plans, it certainly can't be "not important". Could it be that employee benefits have become commoditized to the extent of indifference? Maybe the lack of an overall measurement can be linked to plan sponsors not having determined the cost or negative impact to the firm of their plan being mediocre...or perhaps they haven't given much thought as to what the standards of measurement might be.

#### What are you measuring?

So how can an employer tangibly measure whether a retirement plan is great, mediocre or below standard? What are some benchmarks by which the relative success of a plan might be assessed?

It would be extremely difficult to gauge results from the standpoint of retirement income produced or standard of living maintained in retirement. Even if such results could be quantified, they could not be translated into impact on the firm today. With respect to the effect on a firm's bottom line, the only real yardsticks are collective employee perceptions weighed against all related costs. The employee perceptions can be divided into two categories: The relative positive or negative perception of the plan as a benefit; and, the perception, by those internally involved, of the quality of services being received from providers as a whole.

If employees perceive the 401k plan as weak, or the pension plan as a non-event, it does not matter how many dollars or what percentage of pay the firm contributes, nor does it matter how much the firm is spending to communicate or administer the plan. This is a blinding flash of the obvious...the resources being spent are not translating into a positive bottom line impact.

If the individuals responsible for daily operational functions are frustrated with service providers being user-unfriendly or not responsive to their needs, it doesn't matter how many awards that provider has won for good service, or how competitively the services are priced. If service expectations are not delivered upon, these individuals with operational responsibility lose incentive to make the arrangement work...the result is often a change in providers. And since those fiduciary decision makers and internal operational staff often lack retirement plan expertise, their roles can be doubly challenging.

## **Measurement process**

How then, does the employer know if their plan is up to snuff? An annual survey in which participants are asked to rate, on a scale of 1-10, various aspects of the plan is a good place to start. Using a rating scale is absolutely critical. (Yes/No questions often don't provoke enough thought or depth of results, requesting short answers may be intimidating or require too much time to both take and administer, and an effective multiple choice survey is hard to design.) Although very simple, the following survey questions will likely provide plan sponsors with a sense of how the plan is perceived by participants.

On a scale of 1-10, with 10 being highest, how would you rate:

- The company's commitment to providing a first class retirement benefit?
- The tools and resources available to help you plan for retirement?
- The investment choices available to you?
- Access to advice or guidance, either inside or outside the company?
- The expertise and professionalism of advice or guidance, either inside or outside?

Using the 1-10 scale may not be exact, but it is close enough to ascertain good vs. mediocre. If more than five questions are asked, some participants may be scared off. It is also a good idea to make anonymity an option.

It is also suggested that feedback be gathered from all employees with functional involvement in the plan operation. The goal here is to learn how well the plan is running and if there are sources of frustration or discontent that might spill over to other participants. It is surprising how much damage one or two individuals can do to the overall perception of hundreds of employees. Using a similar 1-10 rating scale, a couple of good questions might be:

- How would you rate the company's support in terms of your role with the 401k plan?
- How would you rate the overall service received from our 401k provider(s)?
- How would you rate the provider's responsiveness to questions or requests?
- How would you rate the extent to which the provider has met expectations?

Frequently, the senior management perceptions are not in line with those with day-to-day responsibility for the plan. Responses to these questions should help get everyone on the same page.

In summary, the most obvious strategies are often overlooked. Take this opportunity to look at your plan, or those of your clients, from the standpoint of how well it is performing...in the eyes of those it impacts. Make an effort to determine if the organization is really getting the maximum result from the resources being allocated.

Other articles by Jeb Graham: [Looking Under the Hood of Your 401k to Understand the Real Costs](#) and [The Importance of Legal Counsel Review](#).

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