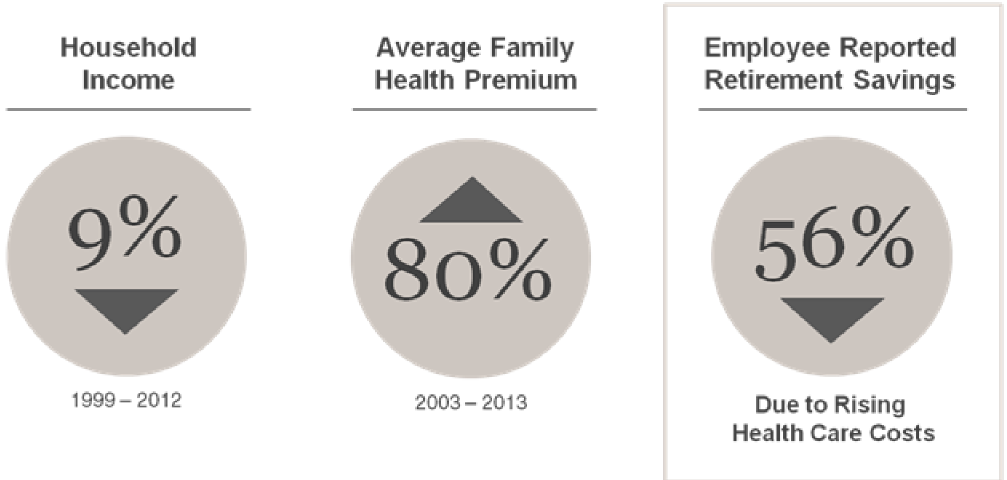
PLANSPONSOR

Plan Failure Risk Is the New Fiduciary Risk

March 31, 2014 | PLANSPONSOR.com

When it comes to employee benefits, most experts agree that plan failure means wasted dollars, and plan success means objectives met.

And yet, year after year, many employers and employees pay more, receive less, and are in a worse financial position.



Overwhelming evidence shows the failure of health and retirement plans. With the advent of the Affordable Care Act (ACA), plan sponsors have approached the problem by asking if their benefits plan incorporates health and retirement plan best practices. Perhaps the better question is, **"Are you wasting your employee benefit dollars?"**

Asking the wrong questions can be costly. Employers spend approximately 30% of payroll on benefits, often without any understanding of the relationship to business objectives. Or, business objectives are understood, yet little thought is given to whether or not the benefit plan is aligned with those objectives.

A benefit plan that fails to advance business objectives is not just a waste of resources, but it puts a business at a competitive disadvantage and affects employees' financial security. Plan failure risk, (PFR) is the risk that a benefit plan fails to advance the objectives of the business, threatening the long-term security of the business and its employees.

It is easy to blame plan failure on escalating health costs. Between 2003 and 2013, the average family health care premium increased 80%.

Employers, therefore, focus attention on health care cost management, a problem the health broker is expected to solve. While health care cost control is a key ingredient of any PFR strategy, health care is only one part of a much bigger picture.

Plan success requires a complete shift in focus. Rather than reactive and cost-based decision-making, plan sponsors must move to a strategic, value-based approach, with coordination between health and retirement planning. This requires an employer's strategic vision, cost-efficient and value-based plan design and implementation, and employee engagement and education.

Strategic Vision

Looming demographic changes in the American workforce and the advent of new plan options from health care reform mean many employers face a decidedly complex benefits environment. Setting clear objectives based on business needs, and developing a coordinated strategy to reach those objectives is an important first step in managing PFR. First, the organization must understand its business objectives and the employee behavior it hopes to motivate. Several common employer objectives include: attracting and retaining top talent, improving employee satisfaction, and minimizing plan cost and complexity.

Plan Design & Administration

Once an employer determines its strategic objectives, it must optimize its retirement and health plan design to achieve those objectives. For example, employers who want to encourage employees' tax-deferred savings may implement health plan features like high-deductible health plans with health savings accounts, or retirement plan features like auto-enrollment, auto-escalation, and re-enrollment. Those who want to maximize executive or owner benefits may look into cash balance retirement plans and employer-paid voluntary benefits. Using a coordinated strategy that incorporates both retirement and health care is essential to driving positive outcomes.

Employee Engagement & Education

Even the best-designed benefit plans are destined to fail if employees do not take ownership of their health and retirement benefits. According to the Kaiser Foundation's 2012 Health Benefits survey, employees indicated their employer's benefit plans are second only to salary in importance—yet many do not know how to maximize the value of their benefits. Some employees are intimidated by the complexity of the issues, while others simply don't view these as a priority "today." The employer can motivate employees to take ownership of their benefits by providing educational tools and resources that help to navigate the complex environment, and stress the importance of taking action "today."

Managing PFR: Hypothetical Plan Sponsor Example

Employer X, a mid-sized software company, offers health and retirement benefits to attract top talent, but has faced double digit health plan cost increases the last two years. Employer X's HR Manager is concerned about dis-satisfied employees struggling with rising costs. Meanwhile, the CFO has concerns about the company's growing liability. HR and Finance, therefore, have competing primary objectives: employee satisfaction and cost control.

Plan Sponsor Call to Action: Build Consensus on Plan Objectives

Employer X's CFO and HR Manager prioritize different objectives, but both need to attain their goals. Creating a continuum of short and longer term goals can help the CFO and HR Manager align. In this case, the longer term objective may be employee satisfaction, but more immediate need is cost control. Once HR and Finance have aligned their objectives, Employer X will have a focus for the upcoming year: to consider changes that will help to save money or are cost-neutral. If Employer X can successfully manage costs in the near term, savings can be allocated to fund plan features that will improve employee satisfaction over the long term.

Industry Call to Action: Stop Recommending One-Size-Fits-All Solutions

Employer X believes retirement plan auto features will improve retirement outcomes and plan success. But the additional cost of automatically enrolling employees is an unrealistic short-term solution for Employer X, and the HR Manager is not convinced that these features will increase employee satisfaction.

Once Employer X's health broker and adviser understand the short-term goal is cost-management and the longer term goal is employee satisfaction, both can recommend features that optimize Employer X's contribution. Perhaps, the immediate recommendation is transitioning to a consumer-directed health plan that will bend the health cost trend. In future years, a portion of savings could be reallocated to the retirement plan as a matching contribution. As shown in this example, retirement plan advisers and health brokers can help Employer X identify coordinated goals across all benefit offerings, and then recommend plan features to meet those specific goals.

Plan failure is all too common in today's retirement and health plans, and has costly, yet avoidable consequences. Managing PFR begins with a first question: **Are you wasting your employee benefit dollars?**

By Shelby George, practice leader, Benefits Solutions at Manning & Napier

NOTE: This feature is to provide general information only, does not constitute legal advice, and cannot be used or substituted for legal or tax advice.

PS | *editors@plansponsor.com*