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FOR EMPLOYERS

Big Data to Drive Participant Outcomes

How Data Analytics Can Help You Make Retirement Plan Decisions

What are Corrective Distributions and How to Avoid Them Going Forward

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Objective Fiduciary Guidance

Hardy Reed, LLC

Retirement Plan Services

Ken Parkinson, VP - Retirement Plan Services
AFIA, PPC, CFS, CEFEX Analyst

kparkinson@hardyreed.com

662 823 4722

hardyreed.com/organizations/retirement/

Big Data to Drive Participant Outcomes

Predicting the needs, wants, and fears of your employees could be as easy as understanding the predictive analytics of your 401(k) plan!

Big Data to Drive Participant Outcomes

If you want to *predict* the wants, needs and fears of participants when it comes to retirement planning, look into the potential of predictive analytics.

The use of "big data" (a bite-size term often used instead of the nerdier "predictive analytics") is helping to steer plan sponsor actions towards enhancing 401(k) participant outcomes and providing insights into consumer behavior.

But what's the best way to jump on this moving train and, more importantly, what does it all mean?

Predictive Analytics and Your 401(k) Plan

First off, predictive analytics is "using many techniques from data mining, statistics, modeling, machine learning, and artificial intelligence to analyze current data to make predictions about the future," as defined by the International Research Journal of Engineering and Technology.

Applying that to the 401(k) world means that data is being analyzed to help plan sponsors and advisors understand what employees need at different stages of their retirement planning, even before they know they need it. This jump start can be used to initiate auto techniques, proactive communications and even targeted educational sessions to help participants manage their 401(k)s.

Enhancing the Conversation

A number of financial services companies are upping the ante by investing big money into big data. For example, John Hancock Retirement Plan Services (JHRPS) expanded its data analytics capabilities last year to "help plan sponsor clients and advisors make plan and platform decisions to help participants save more for retirement." It conducted a predictive analytics pilot with Farm Credit Foundations which had "very high participation and retirement readiness but wanted to know why the few non-contributors had opted out after they were auto-enrolled."[1]

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1. Berczuk, Melissa. " John Hancock Retirement Plan Services Expands Predictive Analytics Capabilities to Close Retirement Savings Gap." 15, March 2018.

#bigdata #retirementreadiness #participantoutcomes #401k

According to JHRPS, they used predictive analytics to "model participant data to identify participant segments – top, normal, and non-contributors – and then enriched the data with third-party data to provide broader insight into the personas." From there they used machine-learning algorithms to predict future outcomes, which helped identify the non-contributors, while providing insight into what might help them save more.

They learned that the employees who kept opting out were often single mothers or midcareer people who faced similar financial stress when returning to the workforce. To encourage these employees to participate, the sponsor decided to lower the auto-enroll default deferral rate from 6% to 1%, which it coupled with auto escalation. The savings nudge worked: "Nearly 85% of the non-contributors who were auto enrolled at the lower default rate stayed in the plan, and many increased their contribution rates," according to Pension & Investments.[2]

Personalization for the Win

Artificial Intelligence (AI) technology is another way we can look at participant behavior and retirement planning. To boil down these sci-fi futuristic terms, AI technology has been described as a technique used to *conduct* predictive analytics.

As another example, the Economist's EIU Perspectives Series examined how AI technology can affect participant outcomes, noting that "enhanced data and technology capabilities and improved transparency enable participants to access greater expertise and have more control and personalization of their investments."[3]

Additionally, they observed that AI technology "can provide more and better information and help take some of the guesswork out of the process (for less-engaged participants) and, as a result, they can make more informed investment choices."

Their conclusion? "Plan sponsors can also take advantage of data, transparency and technology to understand trends in investing and participant activity, as well as participants' goals in their retirement plans. With better information, sponsors can offer more personalized options."

The Future is Now

According to research released in 2018, financial services ranked 4th in adoption of big data for predictive analytics, just behind telecommunications, insurance and advertising.

Make no mistake, the interest in big data and what it can do for client modeling and predicting behavior is becoming an industry-wide trend.

Despite the sci fi-sounding jargon, any data, trend predictions and related information should always be thoroughly reviewed and thought out. This could mean setting up a one-on-one conversation with a financial professional about how to approach complicated retirement plan issues because while technology enhancements are great, there is still no substitute for human experience.

However, one thing is clear. The future of data is *already* here.

2. Pensions & Investments. "Providers mining big data for look into participants." August 2018.

3. Safane, Jack. "Creating Better Retirement Outcomes Using Data, Technology and Transparency." Perspectives from The Economist Intelligence Unit (EIU), The Economist Newspaper, 1 Aug. 2018.

Number Crunching – How can data analytics help you make plan decisions toward improving participant outcomes?

#dataanalytics
#retirementreadiness
#participantoutcomes
#401k

How Data Analytics Can Help You Make Retirement Plan Decisions

If you're not using data analytics to help you make progress toward improving participant outcomes, then you could be missing out on a key component of plan governance. Data analytics are becoming a meaningful part of defined contribution plan governance for retirement plan fiduciaries.

Data analytics can provide detailed information on different participant segments and help sponsors recognize pain points in their plans.

Defining Pain Points

Think about using detailed analytics to break down plan data into specific employee segments based on key factors like age, job category, and tenure. Analytics highlight the employees and groups most at risk of retirement savings shortfalls, giving you useful insight on the tools and strategies that could best help them. Once you assess the analytics, it's time to apply them to your plan.

Tactics for Retirement Readiness

PLAN DESIGN | Employers can use information from analytics to make changes or establish plan design features that can nudge participation at more impactful rates.

Plan Design options to consider:

1. Low participant rate → Reenroll employees not participating

2. Low deferral rate → Implement a higher automatic enrollment default rate

3. Low deferral rate → Encourage auto-escalation of those enrolled but not saving enough

4. Low deferral rate → Encourage participants to defer more by stretching the company match

5. Improper asset allocation → Reenroll all participants into the plan's QDIA

PLAN TOOLS | Positive employee behavior could be driven by using detailed analytics to help select plan tools and technology whether you want to increase participation, savings, tax efficiency, investing, budgeting or provide other education. With the help of your financial advisor, plan sponsors can develop tangible goals, scorecards, wellness programs, and more to track progress going forward to improve plan governance and help participants towards retirement readiness.

Plan Sponsor Take Away

In a recent white paper, Willis Watson Tower stated, "We believe **plan-wide statistics** on mean or median participation rates, balances or contribution rates **measure aggregate data** on all participants **but offer little in the way of insight into retirement adequacy and meaningful benchmarks** for individuals or segments of the population."[1] (Emphasis added). Therefore, today, when most retirement plan committees look at roll-up 30,000 foot level data, data analytics will help you peek into the effectiveness of your plan.

With the proper analytics, plan sponsors can understand their employees' needs, then adjust and develop customized plans, enhanced plan features, and communication strategies and provide tools and technology to engage employees in positive behaviors. Analytics highlight the employees and groups most at risk of retirement savings shortfalls, giving you useful insight on the tools and strategies that would best help them reach retirement.

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4   Willis Towers Watson. "The defined contribution plan proposition: Retirement readiness." September 2018.

What are Corrective Distributions and How to Avoid Them Going Forward

TESTS – the word alone is enough to make the most studious of us sweat. When placed in the context of 401(k) plans, i.e. determining whether your plan passes non-discrimination tests, anxiety levels can go through the roof!

This article will take a brief look at ways to correct a failed "ADP" test, the non-discrimination test mandated by the Internal Revenue Code to determine whether 401(k) elective deferrals unfairly favor highly-compensated employees and using corrective distributions, a method available to fix a failed test. It also outlines a few changes that can be made mid-year to improve test results and explains how to avoid the ADP test altogether.

When Your Plan Fails the Test

Typically, the ADP test is done shortly after the end of the plan year, and if your plan fails, corrections are made in accordance with certain procedures and time frames.

Highly-Compensated Employees (HCE): Highly-compensated employees are those employees who own or are deemed to own through family attribution more than 5% of a business at any time during the current or prior plan year **OR** employees who had compensation in excess of a specific dollar amount in the prior plan year ($120,000 for 2019 plan year testing).

Generally, the plan document specifies the correction procedure; the most common method requires the plan sponsor to first recharacterize excess amounts as "catch-up" contributions, if possible, and then to make corrective distributions to the highly-compensated employees.

Consequently, highly-compensated employees are not only unable to take full advantage of saving for retirement, but the refund of the corrective distributions means they will face additional federal and state income taxes. *Basically, these persons have to refile their taxes, which is time consuming and costly, and will have to pay appropriate taxes on the corrective amount.*

OR, there is another option. If the plan sponsor chooses, they could make additional contributions to the non-highly compensated employees to correct a failed ADP test.

Although making corrective distributions to the highly-compensated employees or additional contributions to the non-highly compensated employees will resolve a failed ADP test, there are other options a plan sponsor can adopt on a proactive basis.

Proactive Steps to Not Fail the Test

One option is to have the ADP test done mid-year to get an early assessment. If it looks as though the plan won't pass, here are three ideas to prevent failure:

1. Restrict the amount of contributions that highly-compensated employees may make to the plan to either a uniform dollar amount or percentage of compensation

2. Implement matching contributions to encourage non-highly-compensated employees to participate at higher levels

3. Add an automatic enrollment feature with automatic annual increases to increase the non-highly-compensated employees' deferral percentages.

Additionally, greater communication can help increase highly-compensated employee's awareness of possible corrective distributions, while better matching and enrollment initiatives can help to boost plan participation.

Skip the Test

There is one way to completely eliminate the ADP test. It is to adopt a safe harbor design for the plan.

A safe harbor plan design requires specific contribution, vesting and participant notification provisions.

#ADPtest
#correctivedistributions
#planadministration

If the thought of failing ADP testing makes your blood pressure spike, take a deep breath and read these 3 tips!

The three basic contribution options include:

— Contribute 3% of salary for all eligible employees (non-elective)

— Match contributions consisting of 100% up to 3% of compensation and a 50% match on the next 2% of compensation (elective)

— Match contributions consisting of 100% up to 1% of compensation and a 50% match on the next 5% of compensation combined with an automatic enrollment feature (a "QACA")

Keep in mind that adopting a safe harbor plan will eliminate the ADP test requirement for future plan years only. It cannot be adopted retroactively or mid-year to alleviate a failed ADP test for the current plan year.

A safe harbor plan can only be offered for an entire plan year; and since most plans have a 1/1 start date that could be good news if you think you will be failing the ADP test in the near future. Keep in mind that there are notification requirements and that participants must be notified 30 to 90 days prior to the start of each plan year, so if this is something you're interested in, setup a call with your service provider today.

Non-discrimination testing is an integral part of sponsoring a 401(k) plan, but there is no need to have anxiety about the ADP test. There are ways to correct a failed test and improve the test results if a failure seems likely as well as ways to avoid the test altogether.

About Hardy Reed

Hardy Reed is an independent, CEFEX Certified retirement plan services and fiduciary services firm. We help plan sponsors develop a process - known as plan governance - based on the Global Fiduciary Standard of Excellence that will help mitigate their fiduciary liabilities, improve participant outcomes, increase operational efficiencies and bring greater value to the organization and plan participants. Hardy Reed serves small, medium and large plan sponsors throughout the country, by providing Objective Fiduciary Guidance.

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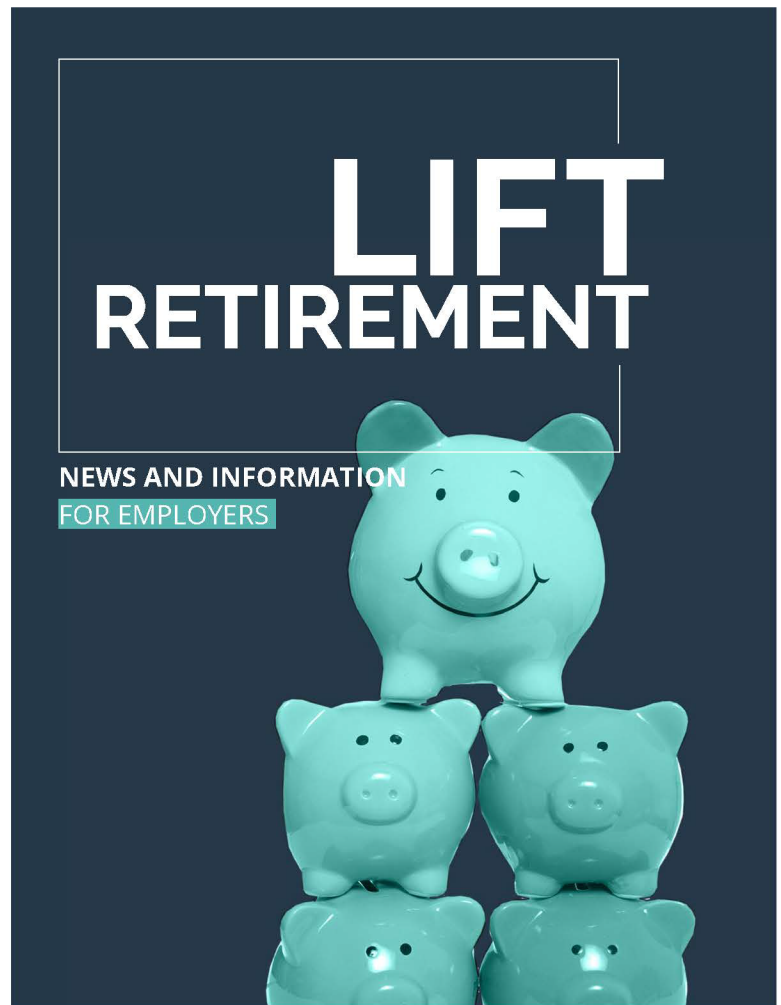
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✉ kparkinson@hardyreed.com

📞 662 823 4722

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As a sponsor of retirement plans for your employees, you play a critical role in their future and the future of the communities in which they live and will spend their retirement incomes. The role of administering a retirement plan is an important organizational and societal action and carries one of the highest standards known under the law – a fiduciary duty.