

Does Your DC Plan Need a Check-Up?

An occasional review of its moving parts is usually a good idea. By **Larry Heller**



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Recent scandals—ranging from questionable timing of stock trades to questionable communications to employees about the stability of their 401(k) plan investments—have brought to light a truism that benefits consultants have been gently sharing with plan sponsors for a very long time. Once in a while, just like you and your car, even the most uncontroversial of defined contribution (DC) plans needs a check-up.

In technical terms, this check-up would ask, “Are you adhering to your fiduciary responsibilities to plan participants?” In plain English, it asks “Have you or anyone else looked lately to see how your plan’s administrators—i.e., your payroll system, recordkeeper, trustee, and anyone else with their hands on your plan’s data and/or its assets—are doing their jobs?”

Although plan sponsors typically think first of reviewing investment products, the operational review these questions suggest, sometimes called an “audit” (though not at all an accounting function), warrants attention and explanation. Such a review is often inspired by one of three general circumstances:

1. Preparation for an impending merger or acquisition, where the acquiring or controlling entity wants to confirm the operational stability of what it’s taking on;
2. Response to one or more major, visible breakdowns in, for example, recordkeeping accuracy, communications, payment timing, etc.; or
3. Responsibility of management (recognized, documented, and legally required) to monitor the benefits and related services provided to employees, even if nothing in particular has apparently gone wrong.

In other words: this exercise can be defensive, reactive, or proactive, any of which is better than being nonexistent.

There are many behind-the-scenes administrative aspects to DC plans. Some are very technical and some, rather mundane. The failure of any one of them can escalate into costly customer service problems, potentially with legal implications. The fundamental objectives of any operational review are almost always to confirm that:

- The day-to-day operation of the plan is in keeping with its rules (i.e., what is written in the plan document, any formal administrative documentation, SPDs, and any other formal employee communications); and

- No aspect of the plan’s operation is out of compliance with federal law (e.g., IRS contribution and pay limits, permissible hardship withdrawal circumstances, etc.).

While collecting and assessing an adequate variety of tell-tale participant test cases and plan-wide data and documentation to meet those two primary objectives, you might also want to confirm, for example, that:

- Participants’ accounts are accurately updated with appropriate investment results;
- Deposits into plan assets are correctly timed in relation to corresponding payroll deductions or participants’ instructions;
- The timing and amount of payments to plan participants properly relate to their submitted requests;
- Generic and personalized communication regarding any particular transaction—whether on paper, or via a Web site, or an automated telephone voice response system—are accessible (and helpful) to current and former employees and beneficiaries as soon as they are first eligible to make the transaction or state an interest in doing so; and
- Statistical reports provided to benefits management on plan utilization and customer service activity are accurate and informative.

Even if you didn’t have contracts or service level agreements with your administrative service providers, wouldn’t you want an objective appraisal of at least how these aspects of your plan’s operations are working, if not a more in-depth review of data management and customer service? It’s true that technological advancements and growing industry-wide expertise have rightfully led the DC plan administrative function to be taken for granted by many (think “commodity”). However, imperfections in any of the functions listed above can and still do spawn from payroll data problems, complex plan design, and customer service overload.

If identified, these imperfections would not necessarily lead to plan qualification or compliance issues (although they could). But any of them could be signs of potential or actual administrative breakdown and, possibly, someone’s failure to meet their fiduciary obligations to plan participants. If that is happening, or if significant required documentation (or charters or policy statements) turns out not to exist, wouldn’t you prefer to know that sooner rather than later? **HRO**