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Improve Plan Design by Knowing Participants Better

January 6, 2014 (PLANSPONSOR.com) – Researching participant demographics can provide plan sponsors with information needed to improve their retirement plans.

“This kind of data helps to tell a story about a plan’s participants,” Mike Volo, practice leader for Cammack LaRhette Consulting, based in Wellesley, Massachusetts, tells PLANSPONSOR. “There is a big interest by plan sponsors to find out more about their participants, whether it is their investment habits or other behaviors.”

Elements to Examine

Volo says basic demographic data about participants—such as age, salary and title/position—usually comes from a plan’s recordkeeper. “Data mining details about participants has become a standard service for recordkeepers and helps provide more insight into participants’ behavior, as well as identifying issues and challenges being faced,” he says.

Plan sponsors may be interested in finding out additional demographic information and using it, along with the basic participant data, to improve their plans. Volo says some other areas to be looked at include participation levels, contribution rates and age-appropriate investing, with plan sponsors seeing who is not participating and why, as well as who is not taking full advantage of employer matching contributions.

Another area that plan sponsors can take a close look at is the plan’s investment lineup, according to Andy Miller, director of Retirement and Investor Services at the Principal Financial Group. “Plan sponsors can look at whether their investment lineup is diversified enough,” the Des Moines, Iowa-based Miller tells PLANSPONSOR. “For example, participants may be invested in money market accounts but only because it was a previously established default. Such a default may not be as applicable now to that participant or group of participants. Plan sponsors should look at things such as the age range of participants. The plan may need investment options like target-date funds to accommodate the needs of different age groups, as well as bettering the diversification of the fund lineup.”

Miller agrees that knowing the age of a participant, or group of participants, can help plan sponsors with plan design as a whole, since age can influence investment preferences and risk tolerance levels. “Older participants, especially those that are close to retirement, tend to play it safe and are therefore usually more conservative in their investment outlook.” He adds that younger participants tend to be more diversified in their investments, oftentimes because they have been defaulted into such investments, such as target-date funds, and subsequently make little or no changes to their investment choices.

Miller also agrees that looking at plan participation levels can be useful, with an eye towards adjusting plan features to address low levels of participation.

Making Use of Demographic Data

As to how plan sponsors can investigate and interpret this participant demographic information, Volo suggests surveying employees. “Interestingly, many plan sponsors are not taking advantage of surveying,” he says, adding that one issue may be that surveying is usually not a standard recordkeeping service. What plan sponsors need to do, he says, is locate a consultant or provider that specializes in such services. However, this consultant or provider also needs to work with the plan’s recordkeeper to make sure all bases are covered in terms of data.

“After reviewing the data, plan sponsors may want to add or update their plan’s automatic features such as automatic enrollment and automatic escalation of contributions, as well as defaults like QDIAs [qualified default investment alternatives],” Volo says. For example, he says, if a company finds it has long-tenured employees, it may consider adjusting the target-date funds used in its default investments, giving younger participants more aggressive investment options, while offering those participants closer to retirement more conservative and age-appropriate investment choices.

Surveying employees can reveal a wealth of information that can be helpful in determining the effectiveness of a plan and its service providers, adds Volo. “I foresee growth in the number of plan



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sponsors that will be interested in finding out how satisfied participants are with the plan features they have and the plan services they are receiving.”

If the participant demographics show a low level of participation, plan sponsors can then take steps to address this issue. “Adjusting the entry or enrollment requirements for the plan might be in order,” says Miller. “For instance, if plan sponsors see that most of their employees are over 21 years old and are generally employed over a long-term period, they may want to use automatic enrollment features, as well as forego the traditional one-year waiting period for enrollment.”

If the demographic data shows the plan has a growing number of older participants, says Miller, plan sponsors may want to consider adding plan features or make information available that benefits such participants. For example, he says, older participants may want information about how to make catch-up contributions. Miller also notes that features such as Roth contributions have become popular with older participants, with many wanting to lock in current tax rates for their retirement investments, believing that taxes will increase in the future and that traditional defined contribution investments will not be worth as much upon retirement.

Communicating Plan Design Changes

Both Miller and Volo agree it is important to effectively communicate plan design changes resulting from participant demographics research.

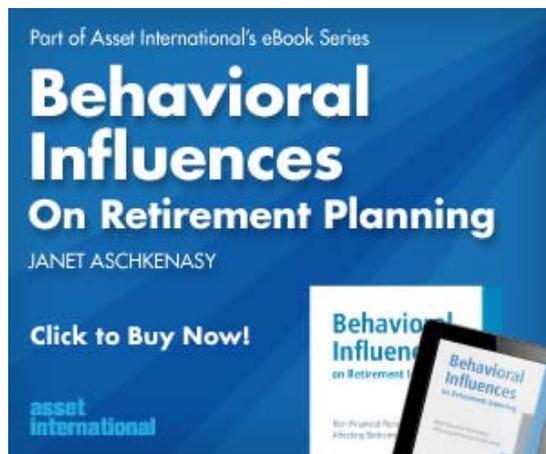
“Plan sponsors need to educate participants of these changes, using clear and targeted communication pieces,” says Miller, adding that the delivery method for these pieces can be just as important as the information they contain. “Younger participants may not respond as well to paper materials, instead preferring a more technology-based delivery of information like an app.”

Volo says surveys and other demographics research may reveal that a certain portion of their participants prefer paper materials or one-on-one meetings with advisers, while others may be fine with accessing such information through regular websites, social media or online videos.

“Investigating participant demographics can tell you if you need to hold retirement readiness workshops for those getting closer to retirement. Or if you need to update orientations for younger participants,” he adds.

Miller says something that should not be overlooked in delivering information is factoring in the cultural context of participants. If a plan has a significant amount of participants that are Hispanic, Asian or any other ethnic group, this needs to be considered. According to Miller, it is important not only to translate the information well, but also to understand the culture of these participants, making sure they understand the importance of retirement planning in terms and standards that are relevant to them.

Kevin McGuinness
editors@plansponsor.com



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