

# Executive Director's Letter

## The Time for Us to Lead Is Now

Employer-led DC plans are good for organizations, employees, and the nation.

By Tony Verheyen

**R**ecently, Bob Collie, Russell Investment's chief institutional research strategist for the Americas, presented the question "Will we get sponsors out of plans?" to attendees at its annual investment summit.

- 47 percent of respondents believed an employer-free structure would "take off" given the right regulatory framework, while 2 percent said sponsors would get out of plans.
- Fewer than 20 percent of respondents said the single-employer plan sponsor role would persist indefinitely.

Given the contemporary financial and benefits landscape, the question is undeniably provocative and prescient, and nobody can blame Mr. Collie for asking a thoughtful question.

### The DC System is Successful

Considering the success of the private retirement system and its role in our future's financial strength, the response is disappointing.

- With more than 90 million American workers actively participating in more than 676,000 qualified retirement plans, they had saved nearly \$7 trillion for retirement as of 2012 (Department of Labor, Employee Benefit Security Administration, Private Pension Bulletin, January 2015).

- Based on PSCA's *Annual Survey of 401(k) and Profit Sharing Plans*, the average participant balance in 401(k) and Profit Sharing plans in 2013 was \$116,000, and the average participant balance in 403(b) plans in 2014 was \$62,513 according to PSCA's *2015 403(b) Plan Survey*.
- Anecdotally, the overwhelming majority of rank-and-file workers secure the bulk of their financial knowledge and wherewithal through workplace retirement plans and resources.

The response is also predictable.

- Sponsors have been battered by the drip-drip-drip of a hyper-regulatory, hyper-inflationary, increasingly litigious, and excessively-scrutinized benefits climate.
- Global competition and lack of comparable voluntary benefit structures in many countries is causing organizational leaders to question the need and effectiveness of voluntary workplace benefits (as opposed to statutory benefits) in this country.



- Organizational leaders are increasingly succumbing to the drumbeat of those who continually decry the "unfair" nature of voluntary workplace benefits, or preach the value of heretofore unproven open multiple-employer plans (MEPs).

### Plan Sponsors are Critical

Before conceding, let us remind ourselves, the naysayers, and all stakeholders, why offering work-based retirement benefits is good for organizations, employees, and our Nation.

## Fairness

Many sponsors offer retirement benefits to be fair to employees. Organizational leaders often live in the same communities as their employees, and most want their employees to (a) regard them as being fair and (b) be happy and comfortable in retirement. *This is good for our Nation.*

## Behavior

Many sponsors offer retirement benefits to improve employee behavior. Sponsors understand that workplace productivity and personal financial readiness are correlated, and that financially-secure employees are more likely to make better decisions. *This is good for our Nation.*

## Engagement

Many sponsors offer retirement benefits to keep employees engaged. Many employers use the discretionary match, non-matching contributions, and company stock to encourage employees to think and act as owners, and to understand the value of their individual contributions to the success of the organization. *This is good for our Nation.*

## Cost/Administrative-Efficiency

Many sponsors offer retirement benefits to maximize economies of scale for services most or all employees need. Embracing the “we are in this together” mindset ultimately leads to lower costs for investment products and fewer administrative hassles for all parties, while contributing to the overall success of the organization. *This is good for our Nation.*

## Tax-Efficiency

Many sponsors offer retirement benefits to maximize tax advantages. Our elected representatives in Federal and State government acknowledge the importance of workplace retirement savings, and grant several significant tax advantages to both employer and employee to incent participation. *This is good for our Nation.*

## Recognition

Many sponsors offer retirement benefits because they want internal and external recognition. Organizational leaders often value the accolades of being regarded as “best place to work” or “employer of choice,” and they realize they get zero recognition for contributions made to social security. *This is good for our Nation.*

## Competition

Many sponsors offer attractive retirement benefits for competitive reasons. They realize they need to offer competitive retirement benefits to either “keep up” with competitors or to differentiate themselves from their competitors. *This is good for our Nation.*


## Steps Going Forward

The reasons organizations offer retirement plans vary, but the commitment to ensuring that plan sponsors maintain control of benefit plans — retirement plans in particular — must be unwavering.

Before allowing others to dominate the dialogue and get the sponsor out of the plan, we must counter with our own ideas. Following are a handful to get the dialogue started.

- Renewing legislative protection for sponsors of DC plans (as opposed to allowing courts to impose un-legislated requirements and creating greater uncertainty).
- Seeking relief from counter-productive or unclear rules, and making it easier to correct plan deficiencies (as opposed to surrendering to the immense weight of hyper-regulation).
- Encouraging innovations in cost-effective, unbiased education and portfolio management (as opposed to saying “education is dead” or “it is too complicated”).
- Highlighting and recognizing our many successes (as opposed to focusing on limited failures).
- Educating employers who don't offer plans on the advantages of offering retirement benefits (as opposed to imposing more mandates).

PSCA remains committed to the sponsor and will strive to remind all stakeholders why the private retirement system is good for organizations, employees, and our Nation.

The time for us to lead is now. 

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*Tony Verheyen is PSCA's Executive Director.*