Pension Plan Fix-It Handbook

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IFEBP Survey Offers Behind-the-Scenes Look at Benefits Departments' Approach

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Do you wonder where your benefits department stands when compared with other companies?

The International Foundation of Employee Benefit Plans 2015 survey (available online to IFEBP members only), "Corporate Benefits Departments: Staffing and Operations," could provide benchmarks and offer some prudent tips. The survey includes responses from 343 human resources and benefits professionals representing employers of all sizes (from fewer than 50 to more than 10,000 employees).

Some key findings include:

- Twenty-five percent of companies surveyed indicated that their benefits function is a single step away from the CEO in terms of corporate hierarchy.
- Ninety percent of companies stated that they use benefit committees to oversee their benefit plan policies.
- Compliance and the rising cost of health care are the top challenges facing benefits departments.
- Data analytics are increasingly being used to determine benefit costs as a percentage of compensation, of operating costs and, for some companies, of revenue.
- Technology, cost and associated risks are the top reasons for outsourcing benefits activities.
- Employee assistance programs, flexible spending account administration, COBRA, retirement benefit payments, qualified domestic relations orders and defined contribution plan administration generally are outsourced, while annual enrollment, communications and Family and Medical Leave Act matters are likely to be handled in-house.
- The average number of benefits staff ranges from 2.9 in companies with fewer than 1,000 employees, rising to 11.3 at companies with more than 10,000 employees.
- In the past two years, more companies have increased benefits staff than decreased it, and more than one-third of companies have created a benefits position.
- Twenty-seven percent of companies have benefits staff dedicated to communications.
- More than half the companies surveyed have budgets for employee benefit education, with 39 percent reporting an increase in these budgets over the past two years.

Let's dig deeper into some of these findings, and think about how and why they should matter to you.

Outsourcing

It is probably no surprise to read the survey results regarding outsourcing. Expertise is the top reason for outsourcing. To monitor the vendors' work, a majority of respondents have some kind of performance- or outcome-based standard for them.

One of the basic tenets of ERISA is the prudent-person rule. Fiduciaries must act solely in the interest of plan participants. As a reminder, ERISA says that fiduciaries must carry out their duties "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."

Simply stated, if you don't have the in-house expertise necessary to comply with the prudent-person rule, you should hire someone to perform these duties or assign someone to oversee the outsourcing partner charged with these duties.

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Andersen (continued from p. 1)

Some plan sponsors still operate under the assumption that once the "function" is outsourced, it is the responsibility of the service provider. This is not true! Even if a service provider accepts fiduciary responsibility for certain functions, the act of selecting a service provider is a fiduciary function. In addition, U.S. Department of Labor regulations (Q/A FR-17 of DOL Regulation 2509.75-8) require that the performance of trustees and other fiduciaries be reviewed by the appointing fiduciary to ensure that their performance is in compliance with the terms of the plan and its statutory standards, and satisfies the needs of the plan.

Performance agreements can facilitate due diligence. These often include measures such as accuracy and responsiveness. You determine how those terms are defined, based on your company's needs and experiences. Examples of performance guarantees include speed of telephone responsiveness to participant questions, timely distribution of participant statements and accuracy of the statements and benefit calculations.

Benefit Committees

Benefit committees are a part of the benefit plan's overall governance process. The survey disclosed that "most companies (87.8 percent) use committees to oversee benefit plan policies." The most common are 401(k) committees, followed by health care plans, wellness/health management programs, defined benefit plans and disability plans.

The size of the plan (in terms of both participants and assets), the complexity of plan provisions and the availability of in-house expertise are just some of the factors that determine the composition of benefit committees. Benefit committees often include administrative committees and investment committees. Some benefit committees are a subcommittee of a corporate compensation committee that reports directly to the board of directors.

There is no one-size-fits-all approach to establishing a benefit committee. However, selecting the right people with the appropriate expertise for each subcommittee is critical to the success of any committee.

Committees are often a mix of representatives from human resources, benefits, legal, technology and payroll departments. Investment advisers and actuaries provide the financial and highly technical advice needed to manage a retirement plan. The benefits and/or investment committee should have its own guidelines describing the scope of its authority, steps for adding and removing committee members, and member responsibilities.

It is important that committees keep minutes documenting decisions. ERISA often is referred to as a process statute, so the outcome of a decision isn't as important as the process used to make the decision.

Visibility

The benefits function is highly visible and high up on the corporate ladder. The survey revealed that the benefits function is two levels away from the CEO in most companies (65.6 percent) and just one level removed in almost 25 percent of the companies responding.

The above results should be no surprise if you think about how much money is spent on benefit programs. A December 2015 Bureau of Labor Statistics report showed that employee benefits comprise almost one-third of compensation costs.

Why is this finding important? It highlights the need for adequate, knowledgeable staff. The survey results also indicate that the majority of companies provide training for their employees. Online training tops the list, with conferenced and off-site training following closely.

Communications

Slightly more than 25 percent of respondents have staff dedicated to employee benefit communications. The importance of clear, timely and accurate benefit communications can't be overstated. Recent court cases emphasize the need for thorough employee communications (for example, *Cigna v. Amara* and *Osberg v. Foot Locker*). Retirement plan communications can be complex and difficult to convey. It is prudent to enlist the plan's actuary, legal counsel and service providers in reviewing employee communications pieces. Be sure to allow sufficient time for review by these parties.

Bottom Line for Plan Sponsors

Keeping in mind that a basic principle of ERISA's prudent-person rule is to act like a similarly situated

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person in a like situation, how do your own processes compare with the benchmarks provided in the survey?

- Do you have performance agreements with your service providers?
- Does your plan have a benefit committee? If not, why not? Do you have a group of advisers who serve as the plan's committee?
- Do you provide educational opportunities for your benefits staff?
- Who is responsible for drafting and reviewing all employee benefits communications?

Take the time to perform a self-assessment of these areas; you may be glad you did. ❖

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