Keeping Retirees in Your Retirement Plan

According to T. Rowe Price, some sponsors may anticipate that their relationship with participants — as well as their responsibilities toward them — will naturally wind down at retirement, even though only about one in five sponsors prefer participants to leave their plans when they exit the workforce. Sponsors should carefully weigh the pros and cons of encouraging retirees to remain on board.

The Participant Perspective

Participants might be encouraged to linger in their company plan to take advantage of increased access to certain types of investment vehicles, such as stable value funds and collective investment trusts. A 401(k) typically has lower fees than an IRA and often comes with complimentary advisory services. The increased fiduciary responsibility required of a qualified retirement plan also provides a greater level of investor protection than an IRA.

Pros for Employers

It's not just employees who may benefit from staying on a company's 401(k) plan after retirement — employers can too.

Lower administrative fees.

The primary benefit for employers when retirees keep funds in their retirement plan account is the overall boost that these participants can give to total assets, which in turn assists in maintaining a healthy plan. Having higher pooled assets, bolstered by retiree funds, can help sponsors negotiate with financial service providers. This increased bargaining power could help sponsors lower their fees and administrative costs.

Greater access to institutional share classes.

Keeping retiree dollars in plan can also increase access to more preferential share classes. This can lower fees even more for all participants.

Cons for Employers

Although sponsors can use retiree funds as leverage for lower fees, there can also be drawbacks to keeping retirees on your books.

Before deciding how to proceed, employers should consider these factors.

Additional responsibilities and needs.

The most noteworthy drawback to keeping retirees' assets in the plan is the continued administrate burden — tracking and monitoring retirees' accounts, providing disclosures and maintaining regulatory compliance.

Additionally, sponsors should consider the need for specific communications with participants as they approach retirement. The inclusion of retirees in a plan may require the addition or expansion of resources, services, and solutions.

Risk and liability.

In addition to having the responsibility to track and monitor plan funds, sponsors are potentially liable for them as well.

Sponsors who invite retirees to stay active in their company's 401(k) should prepare for the risk and liability of these assets. This can be more difficult with retirees than current employees, as retirees typically have less direct contact than current staff — if participants become difficult to locate past retirement for disbursals and disclosures, the responsibility lies with the employer to make reasonable attempts to

Continued on back

track them down.

Weighing the Pros and Cons

The decision to invite retirees to remain in a company's 401(k) plan depends on many factors, but the most important one is often the size of the plan itself. Sponsors who manage larger plans often have the resources to provide administrative services and cover participant fees, whereas sponsors of smaller plans may be more concerned with their administrative responsibilities. If you're considering whether to encourage retirees to stay in your plan, weigh the pros and cons carefully.

Sources:

https://www.troweprice.com/content/dam/retirement-plan-services/pdfs/insights/rfa_What_DC_Plan_Sponsors_Prefer.pdf

https://www.kiplinger.com/article/retirement/t001-c032-s014-what-should-401-k-plan-sponsors-do-about-retirees.html